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August 19, 2014

BY FAX & BY COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Board File No. EB-2014-0162
Milton Hydro Distribution Inc. --- Z Factor Application
Energy Probe – Argument

Pursuant to Procedural Order No. 2, issued June 17, 2014, please find attached the Argument of Energy Probe Research Foundation (Energy Probe) in respect of Milton Hydro Distribution in the EB-2014-0162 proceeding for consideration of the Board.

Should you require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

cc. Cameron McKenzie, Milton Hydro Distribution (By email)
Frank Lasowski, Milton Hydro Distribution (By email)
Suresh Advani, Ontario Energy Board (By email)
Ljuba Djurdjevic, Ontario Energy Board (By email)
Randy Aiken, Aiken & Associates (By email)
Parties of Interest (By email)

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Ontario Energy Board

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 Milton Hydro
Distribution Inc. for an order, approving the recovery of certain
amounts related to the restoration of electricity service in the
Town of Milton due to an ice storm in December 2013, to be
effective November 1, 2014 for 18 months.

**ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

ARGUMENT

August 19, 2014

**MILTON HYDRO DISTRIBUTION INC.
2014 Z-FACTOR APPLICATION**

EB-2014-0162

ARGUMENT OF ENERGY PROBE RESEARCH FOUNDATION

A- INTRODUCTION

This is the Argument of the Energy Probe Research Foundation (“Energy Probe”) related to the issues raised by the Z factor application of Milton Hydro Distribution Inc. (“Milton Hydro”).

Energy Probe takes no issue with the claim of Z factor eligibility. Energy Probe submits that Milton Hydro has adequately substantiated the claim.

In particular, Energy Probe submits that the amounts claimed by Milton Hydro (subject to the submissions below) are directly related to the Z factor event and are incremental to the base upon which rates were derived.

The amounts (subject to the submissions below) were prudently incurred are in excess of the Board-defined materiality threshold for Milton Hydro of \$65,025 (Application, paragraph 1.10).

However, Energy Probe does take issue with the amount claimed and the allocation to customers of the amount to be claimed.

Submissions on these two issues are provided below.

B - SUBMISSIONS

a) Amount of the Z Factor Claim

Milton Hydro is claiming a Z factor amount of \$946,967 that is related to incremental OM&A costs, including interest (Application, paragraph 1.4), but is not claiming any cost of capital related to incremental capital expenditures because the amount is small (Application, paragraph 1.5).

Energy Probe submits that the claim that all of the amounts are incremental to the base upon which rates were derived has not been clearly demonstrated by Milton Hydro.

Energy Probe supports the recovery of the incremental OM&A costs that are clearly in excess of the base upon which rates were derived. However, to quantify this amount, one must know what the base cost was that was included in the derivation of rates.

Unlike some costs that may be incurred by a distributor that have not been forecast and therefore are clearly not included in the base upon which rates have been derived, emergency response costs are an ongoing cost that is part of the distributor's OM&A forecast.

As indicated in the response to Energy Probe Interrogatory #3 and the Board Staff Interrogatory #11d, Milton Hydro included \$269,120 in the 2011 budget for Emergency Distribution Systems Problems. However, as also indicated in the response to Board Staff, Milton Hydro discontinued allocating burdens to overtime labour which, according to Milton Hydro, accounts for the significant decrease in the budget and actual amounts for 2012 and 2013.

Energy Probe submits that it is not clear that the budgeted amount of \$87,600 shown for 2013 is equivalent to the \$269,120 budgeted for 2011 and included in base rates for emergency problems adjusted solely for the removal of burdens from overtime labour.

Furthermore, Milton Hydro has not provided any evidence that could have been tested in this application as to whether or not the budgeting change was appropriate, or where these costs have been re-allocated.

The only evidence on the record in this proceeding is that Milton Hydro included \$269,120 in base rates for Emergency Distribution Systems Problems.

In the response to Board Staff Interrogatory #11d, the actual Emergency Distribution Systems Problems cost was \$134,805 for 2013 (excluding the December ice storm).

Energy Probe submits that the difference between this amount (\$134,805) (excluding the December ice storm) and the \$269,120 included in base rates, or \$134,315, should be used to reduce the Z factor claim of \$946,967 to \$812,652. This is the amount by which the Z factor event costs were in excess of the amount built into rates, after adjusting for other actual costs.

b) Allocation and Recovery

i) Allocation

Milton Hydro proposes to recover the Z factor amount from metered customers only. Energy Probe submits that this is not appropriate.

The Milton Hydro proposal means that the street lighting, sentinel light and USL classes would not bear any of the costs of the ice storm. Energy Probe submits that this is neither fair nor appropriate.

Further, Milton Hydro has not allocated the costs to the rate classes. Instead, the proposed monthly fixed rate rider is the same across all customer classes. Energy Probe again submits that this is not appropriate. There is no reason to expect a residential customer to pay the same portion of the cost as a large general service customer.

As shown in the response to Energy Probe Interrogatory #8e, the vast majority of the costs to be recovered are recovered from the residential class.

Energy Probe submits that there are two allocation methodologies that the Board should consider in allocating costs to all rate classes.

The first of these is referenced in Board Staff Interrogatory #7e and is based on the last OEB-approved distribution revenue by rate class. This allocation is consistent with the Board's Decision on The Combined Proceeding on Storm Damage Cost Claims (EB-2007-0514/0595/0571/0551) and the Board's Decision on Niagara-on-the-Lake Hydro Inc.'s wind storm damage Z-factor claim (EB-2011-0186), where the Board ruled that approved costs shall be allocated to the classes on the basis of distribution revenue.

Energy Probe notes that while this methodology has been approved by the Board in other proceedings, it suffers from the fact that distribution revenues do not provide a true view of costs because the revenue to cost ratios for rate classes are not all the same. This is clearly illustrated in Appendix K to the Proposed Settlement Agreement accepted by the Board in the EB-2010-0137 cost of service proceeding, where the revenue to cost ratios ranged from a high of 115% to a low of 41.6%. Energy Probe submits that the customers with a high revenue to cost ratio should not bare a higher proportion of their costs than customers in other rate classes. There is already a level of subsidization through the divergent revenue to cost ratios that should not be extended to the recovery of a Z factor event.

The second alternative would be to allocate the costs among the rate classes in the same proportion as the costs included in accounts 5120 and 5215 in the last OEB approved cost allocation study. These accounts record the costs associated with the maintenance of poles, towers and fixtures, and the maintenance of overhead conductors and devices, which includes tree trimming costs.

Energy Probe submits that the second alternative is the more appropriate way to properly allocate the costs to rate classes. If similar costs had been incurred on a preventative basis, such as additional tree trimming, the costs would be allocated to rate classes based on the Board approved cost allocation methodology. Energy Probe sees no reason to deviate from the principles of cost causality when allocating the costs associated with a specific event such as an ice storm.

As shown in the tables provided in the responses to Energy Probe Interrogatory #8e and Board Staff Interrogatory #7e, there is a significant change in the recovery of the \$946,967 depending on the allocation methodology. For example, under the Milton Hydro proposal, the residential class pays \$867,885 or 91.6% of the cost, while under the distribution revenue methodology, the residential class pays \$612,272 or 64.7% of the cost, and under the account 5120/5125 approach, the residential class pays \$476,603, or 50.3% of the cost. Clearly there is a significant impact on all rate classes based on the methodology used to allocate this cost.

ii) Recovery

Energy Probe submits that the recovery of the Z factor amount through the use of a fixed rate rider is appropriate. Costs should be recovered based on a customer basis, rather than a consumption basis. This is because the costs proposed for recovery in this application are customer driven and not consumption driven.

However, Energy Probe submits that the Board should direct Milton Hydro to base the monthly fixed rate rider on the forecast number of customers over the duration of the term of the rate rider rather than number of metered customers at the end of 2013 (34,073), as proposed by Milton Hydro.

As shown in the response to Energy Probe Interrogatory #7, Milton Hydro forecasts that it will have 34,900 metered customers at the end of October, 2014 when the rate rider would begin and 37,073 at the end of April, 2016 when the rate rider would end. This is an increase of 3,000 or more than 8.8% over the life the rate rider.

Milton Hydro agrees that its proposal would result in over recovery of the balance in the Z factor account (Energy Probe Interrogatory #7d). Even though this over collection will be tracked and refunded to customers in the future, Energy Probe submits that it is better policy to set the rate rider based on readily available information (customer forecasts) rather than to set a rider that will, by definition, over collect from customers.

In summary, Energy Probe submits that the fixed rate rider should be set based on the expected average number of customers/connections in each rate class over the term of the rate rider.

C - COSTS

Energy Probe requests that it be awarded 100% of its reasonably incurred costs. Energy Probe focused on the quantum and allocation of the Z factor claim.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

August 19, 2014

**Randy Aiken
Consultant to Energy Probe**