IN THE MATTER OF the *Ontario Energy Board Act, 1998*, being Schedule B to the *Energy Competition Act, 1998*, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Milton Hydro Distribution Inc. to the Ontario Energy Board for an Order or Orders approving the recovery of amounts related to the restoration of electricity service in the Town of Milton due to the December 2013 Southern and Eastern Ontario Ice Storm.

MILTON HYDRO DISTRIBUTION INC. ("Milton Hydro")

EB-2014-0162

APPLICATION FOR APPROVAL OF A Z-FACTOR RATE RIDER FOR RECOVERY OF ICE STORM RELATED RESTORATION COSTS

REPLY SUBMISSION

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APPLICATION FOR APPROVAL OF A Z-FACTOR RECOVERY OF ICE STORM RELATED RESTORATION COSTS

REPLY SUBMISSION

1. Introduction

1.1 The Applicant is Milton Hydro Distribution Inc. (“Milton Hydro”). Milton Hydro is a corporation incorporated pursuant to the *Ontario Business Corporations Act* with its head office in the Town of Milton. Milton Hydro carries on the business of distributing electricity to 34,073 metered customers in the Town of Milton under Ontario Energy Board (“OEB”) Electricity Distribution Licence ED-2003-0014.

1.2 Milton Hydro filed an application with the Ontario Energy Board (the "OEB") on April 15, 2014 pursuant to section 78 of the *Ontario Energy Board Act*, *1998* as amended (the "OEB Act") for approval of the proposed fixed rate rider effective for the period November 1, 2014 to April 30, 2016 as set out in its Z-Factor Application (“Application”).

1.3 Milton Hydro confirmed that the amount included in this Application is the December 31, 2013 balance included in Milton Hydro’s year end Audited Financial Statements.

1.4 Specifically, Milton Hydro applied for recovery of $935,507, plus carrying costs in the amount of $11,460 for a total Z-Factor Claim of $946,967, of incremental operations, maintenance and administration (“OM&A”) costs incurred to restore electricity service to approximately 15,000 customers in the Town of Milton after a severe ice storm hit Southern and Eastern Ontario on December 21 and 22, 2013.

1.5 Milton Hydro’s capital costs related to the replacement of poles, transformers and reclosers amounted to $48,871. Milton Hydro determined that the regulated return on rate base associated with the ice storm capital expenditure in the amount of $3,249, calculated on the OEB-Approved regulated rate of return of 6.65% as determined in Milton Hydro’s 2011 Cost of Service Rate Application, is not material and therefore Milton Hydro did not included the return on rate base in this Application for recovery.

1.6 Milton Hydro received interrogatories from OEB Staff, Energy Probe and the Vulnerable Energy Consumers Coalition (“VECC”) on July 10, 2014.

1.7 Milton Hydro filed its interrogatory responses on July 30, 2014.

1.8 Milton Hydro received written submissions from OEB Staff, Energy Probe and VECC on August 20, 2014.

1.9 Milton Hydro submits its Reply Submission.

2. Reply Submission

2.1 Milton Hydro submits that its Z-Factor Application has met the OEB Z-Factor eligibility criteria of causation, materiality and prudence. In making this submission Milton Hydro refers to the following:

- OEB Staff submission, page 5, states "In summary, based on its review of the evidence, Board staff submits that the criteria of causation, materiality and prudence were met. As such, Board staff supports the amount requested for recovery.";
- Energy Probe submission, page 1, states "Energy Probe takes no issue with the claim of Z factor eligibility. Energy Probe submits that Milton Hydro has adequately substantiated the claim."; and
- VECC submission, page 4, states "In considering the above, VECC submits the Z-Factor amounts were prudently incurred."

2.2 Milton Hydro further submits that recovery of the Z-Factor costs, by way of a Fixed Rate Rider is also supported by OEB Staff, Energy Probe and VECC. Milton Hydro would refer to the following:

- OEB Staff, page 7 states "Board staff further submits that, for reasons of simplicity and fairness, a fixed rate rider derived by allocating… [method of allocation of restoration costs is dealt with separately below]… would result in the best outcome.";
- Energy Probe, page 5, states "Energy Probe submits that the recovery of the Z factor amount through the use of a fixed rate rider is appropriate."; and
- VECC, page 5, states "VECC further submits that the use of a Fixed Rate Rider is more appropriate than Fixed and Variable Rate Riders as the costs are fixed and not driven by consumption."

3. Detailed Submissions from OEB Staff, Energy Probe and VECC

3.1 OEB Staff and Intervenors provided detailed submissions on the following matters:

Z-Factor Costs Claimed

OEB Staff

- Amount of claim meets Z-Factor eligibility criteria.

Energy Probe and VECC

- The Z-Factor amount should be reduced by $134,315 for excess storm related costs already included in rates;

Allocation of Z-Factor costs –

OEB Staff and VECC

- Allocated across all customer classes based on Milton Hydro's distribution revenue as approved in its 2011 Cost of Service Rate Application.

Energy Probe:

- Allocated across all customer classes on the same basis as USofA 5120 and 5215 using Milton Hydro's 2011 Cost Allocation Model.

Calculation of the Fixed Rate Rider –

OEB Staff

- Calculate using the customer counts for all rate classes based on Milton Hydro's distribution revenue as approved in its 2011 Cost of Service Application.

Energy Probe and VECC

- Calculate for all rate classes using the average number of customers forecasted from November 1, 2014 to April 30, 2016.

Response to Detailed Submissions

Z-Factor Costs Claimed

OEB Staff

3.2 OEB Staff state on page 5 of their submission "In summary, based on its review of the evidence, Board staff submits that the criteria of causation, materiality and prudence were met. As such, Board staff supports the amount requested for recovery."

Energy Probe and VECC

3.3 In response to OEB Staff Interrogatory #11d, Milton Hydro provided a table of Emergency Distribution Systems Problems comparing Budget to Actual for the years 2008 to 2013. In that interrogatory Milton Hydro explained that "Beginning in 2012, Milton Hydro discontinued allocating burdens to overtime labour which accounts for the significant decrease in the budget and actual amounts for 2012 and 2013." In a clarifying conversation with OEB Staff, Milton Hydro explained that the burdens included in the Emergency Distribution Systems Problems budget of $269,120 in 2011 were now being charged and allocated on regular hours only, effective with Milton Hydro's 2012 budgeting process. The burden costs continue to be incurred by Milton Hydro and continue to be included in the base costs upon which rates were set. The only change is the allocation method.

3.4 Energy Probe and VECC, in their submissions, interpreted the reduction in the Emergency Distribution Systems Problems budget as a cost savings to Milton Hydro, which, as explained in the above paragraph, is not the case. Milton Hydro has simply changed its method of allocating the burdens. Milton Hydro submits that a reduction to its Z-Factor claim is not appropriate as the burden costs continue to be included in Milton Hydro's current costs as they were in the base costs upon which the 2011 rates were set.

Allocation of Z-Factor costs

OEB Staff and VECC

3.5 OEB Staff state in Interrogatory #7, "Board staff further notes that in 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), the Board ruled that approved costs shall be allocated to the classes on the basis of distribution revenue and using the last Board approved fixed-variable split.

Board staff also notes that in the Settlement Agreement approved by the Board with respect to West Coast Huron Energy Inc.'s tornado damage claim embedded within its 2013 cost of service rate application (EB-2012-0175), approved costs were allocated to the classes on the basis of dollar weighted allocators, i.e. distribution revenue."

3.6 OEB Staff submit that "ice storm damage is a general distribution system problem and that normally in electricity distribution rate-setting, the Board allocates distribution costs between classes on the basis of distribution revenue."

3.7 VECC repeated this reference in its submission beginning at page 4. VECC supports that allocation of Milton Hydro's Z-Factor costs based on Milton Hydro's OEB-Approved 2011 Cost of Service distribution revenue.

3.8 Milton Hydro agrees with the submissions of OEB Staff and VECC that consistency with the previous OEB-Approved methodology of allocating Z-Factor costs based on distribution revenue is appropriate. However, as explained below in Milton Hydro's response to Energy Probe, Milton Hydro proposes to update its 2011 OEB-Approved distribution revenue for the re-alignment of the revenue to cost ratios Approved in Milton Hydro's 2012 Incentive Regulation Mechanism ("IRM") Rate Application.

Energy Probe

3.9 Energy Probe, in its submission also reference the OEB Staff Interrogatory #7, however, Energy Probe proposed a new method of allocating Z-Factor costs by using Milton Hydro's OEB-Approved 2011 Cost Allocation Model and the Uniform System of Accounts – UsoA 5120 Maintenance of Poles, Towers and Fixtures and 5125

Maintenance of Overhead Conductors and Devices. In proposing this method of allocating the Z-Factor costs Energy Probe reference the revenue to cost ratios from Milton Hydro's 2011 Cost of Service Rate Application EB-2010-0137 and in particular the range from a high of 115% to a low of 41.6% as representing subsidization among classes.

3.10 Milton Hydro's revenue to cost ratios were re-aligned in its 2012 Incentive Regulation Mechanism ("IRM") Rate Application EB-2011-0183 as set out in Table 1 below.

Table 1

2012 IRM Revenue to Cost Ratios

Rate Class	2012 IRM Re-Alignment
Residential	1.04
General Service Less Than 50 kW	0.99
General Service 50 to 999 kW	0.84
General Service 1,000 to 4,999 kW	1.05
Large Use	1.05
Unmetered Scattered Load	1.05
Sentinel Lighting	0.70
Street Lighting	0.70

3.11 The revised range is now a high of 1.05% to a low of 0.70% for the Street Lighting and Sentinel Lighting customer classes which have been recognized as outliers. In addition, it was agreed by all parties in Milton Hydro's Settlement Agreement to its 2011 Cost of Service Rate Application that the revenue to cost ratio for the General Service 50 to 999 kW class would not be changed.

3.12 Milton Hydro submits that revenue to cost ratios will never be perfect, however, with the re-alignment of the revenue to cost ratios in its 2012 IRM Rate Application the subsidization across classes has been significantly reduced and therefore allocation of the Z-Factor costs based on Milton Hydro's 2011 Cost Allocation Model is not required or applicable.

3.13 In order to address Energy Probe's concerns with using Milton Hydro's 2011 OEB-Approved Cost of Service distribution revenue Milton Hydro submits that it is more appropriate to use Milton Hydro's 2011 Cost of Service distribution revenue adjusted for the revenue to cost ratios in its OEB-Approved 2012 IRM Rate Application, which better reflects the revenue to costs and minimizes cross subsidization.

3.14 The following Table 2 is taken from Milton Hydro's OEB-Approved 2012 IRM model "MILTON_FINAL_REVCOST", Tab "10. Proposed R C Ratio Adj" and Tab "11. Proposed Revenue". These two tabs adjust Milton Hydro's 2011 OEB-Approved Cost of Service distribution revenue of $13,005,098 for the updated revenue to cost ratios for each customer class as set out in Table 1 above.

Table 2

2011 Cost of Service Distribution Revenue Adjusted for 2012 Revenue to Cost Ratios

	TAB 10. Proposed R C Ratio Adj					TAB 11. Proposed Revenue	
Rate Class	Adjusted Revenue	2011 Cost of Service Revenue to Cost Ratios	Re-Allocated Cost	2012 IRM Revenue to Cost Ratios	Final Adjusted Revenue	Allocated Re-Based Revenue Offsets	**Revenue Requirement from Rates Before Transformer Allowance**
Residential	9,354,377	1.04	8,960,132	1.04	9,354,378	950,983	**8,403,395**
General Service Less Than 50 kW	1,888,300	0.99	1,899,699	0.99	1,884,501	185,007	**1,699,494**
General Service 50 to 999 kW	1,674,035	0.83	2,012,061	0.84	1,686,787	190,404	**1,496,383**
General Service 1,000 to 4,999 kW	759,627	1.15	660,545	1.05	693,573	58,921	**634,652**
Large Use	583,274	1.15	507,195	1.05	532,555	39,316	**493,239**
Unmetered Scattered Load	49,692	1.10	45,175	1.05	47,433	5,032	**42,401**
Sentinel Lighting	11,266	0.44	25,374	0.70	17,762	1,899	**15,863**
Street Lighting	147,092	0.42	353,586	0.70	247,511	27,838	**219,673**
	14,467,664		14,463,767		14,464,498	1,459,400	**13,005,098**

3.15 Milton Hydro has provided the following Table 3 which sets out the allocation of its Z-Factor costs, in the amount of $946,967 including carrying costs, based on Milton Hydro's 2011 OEB-Approved Cost of Service distribution revenue as adjusted for the revenue to cost ratios from Milton Hydro's 2012 OEB-Approved IRM Rate Application as set out in Table 2 above..

Table 3

Ice Storm Costs Allocation on 2011 Distribution Revenue

Updated for 2012 IRM Revenue to Cost Ratios

2011 Cost of Service Distribution Revenue Updated for 2012 IRM Revenue to Cost Ratios		Ice Storm Cost Allocated on Dist. Rev.
Customer Class	**Distribution Revenue**	
		946,967
Residential	8,403,395	611,894
General Service <50kW	1,699,494	123,749
General Service 50 to 999 kW	1,496,383	108,959
General Service 1000 to 4999 kW	634,652	46,212
Large Users	493,239	35,915
Umetered Scattered Load	42,401	3,087
Sentinel Lighting	15,863	1,155
Street Lighting	219,673	15,995
Total	13,005,098	946,967

Calculation of the Fixed Rate Rider

3.16 As discussed above in paragraph 2.2, OEB Staff, Energy Probe and VECC each supported recovery of Milton Hydro's Z-Factor claim by way of a Fixed Rate Rider. While Milton Hydro proposed to calculate the fixed rate rider on metered customers only, OEB Staff, Energy Probe and VECC each argued that the fixed rate rider should be calculated on all customer classes base on the number of customers or connections. Milton Hydro accepts this argument and agrees that the Fixed Rate Rider should be calculated on all customer classes.

OEB Staff

3.17 In their submission, OEB Staff make reference to interrogatory #7 and that the amount of the fixed rate rider for a Residential customer would be $1.26 per month. The $1.26 is calculated using the customer counts approved in Milton Hydro's 2011 Cost of Service Rate Application. OEB staff submits that the fixed rate rider should

be calculated for all customer classes based on the number of customers or connections approved in Milton Hydro's 2011 Cost of Service Rate Application.

3.18 Milton Hydro does not agree with OEB Staff in that the 2011 customer counts are outdated compared to Milton Hydro's current customer counts and the use of 2011 customer counts will result in higher Fixed Rate Riders than required.

Energy Probe and VECC

3.19 Energy Probe's submission, page 5, recommends that the fixed rate rider should be calculated on the "expected average number of customers/connections in each rate class over the term of the rate rider".

3.20 VECC's submission, also at page 5, agreed with Energy Probe's recommendation.

3.21 Milton Hydro does not agree with Energy Probe's recommendation as the forecasted customer counts are not founded or supported by discussions with developers in the Town of Milton and therefore the forecasts are not necessarily reliable and are used for internal purposes only.

3.22 Milton Hydro submits that its customer count as at December 2013, as proposed in its Z-Factor Application is an accurate count of metered customers, however, Milton Hydro's customer count may be further updated with the actual number of customers and connections to the end of August 2014 being the most current data.

3.23 Milton Hydro has provided the following Table 4 calculating the Fixed Rate Rider based on the allocation of its Z-Factor costs using its 2011 OEB-Approved distribution revenue adjusted for its OEB-Approved 2012 IRM Rate Application revenue to cost ratios as set out in Table 3 above and Milton Hydro's actual customer/connections count as at August 2014.

Table 4

Fixed Rate Rider Based on August 2014 Customers/Connections

2011 Cost of Service Distribution Revenue Updated for 2012 IRM Revenue to Cost Ratios		Ice Storm Cost Allocated on Dist. Rev.	August 2014 Customers / Connections	Fixed Rate Rider over 18 Months
Customer Class	Distribution Revenue			
		946,967		
Residential	8,403,395	611,894	31,837	1.07
General Service <50kW	1,699,494	123,749	2,521	2.73
General Service 50 to 999 kW	1,496,383	108,959	283	21.39
General Service 1000 to 4999 kW	634,652	46,212	12	213.95
Large Users	493,239	35,915	3	665.10
Umetered Scattered Load	42,401	3,087	190	0.90
Sentinel Lighting	15,863	1,155	251	0.26
Street Lighting	219,673	15,995	3078	0.29
Total	13,005,098	946,967		

4. Conclusion

4.1 All participants in Milton Hydro's Z-Factor Application acknowledge that Milton Hydro has met the Z-Factor criteria of Causation, Materiality and Prudence.

4.2 All participants in Milton Hydro's Z-Factor Application support the recovery of the ice storm restoration costs by way of a Fixed Rate Rider.

3.24 Milton Hydro has explained the change in the allocation of burdens from overtime labour to regular labour hours in its budget for its 2012 and 2013 Emergency Distribution Systems Problems. While the methodology used to allocate burdens was changed the burden costs continue to be included in Milton Hydro's current costs as they were in the base costs upon which the 2011 rates were set.

4.3 Milton Hydro agrees with the submissions of OEB Staff and VECC that consistency with previous OEB-Approved methodology of allocating Z-Factor costs on distribution revenue is appropriate. In determining the appropriate distribution revenue to use, Milton Hydro has taken into consideration the concerns of Energy Probe with regards

to Milton Hydro's revenue to cost ratios as approved in Milton Hydro's 2011 Cost of Service Rate Application and adjusted the 2011 OEB-Approved distribution revenue for the revenue to cost ratios determined in Milton Hydro's OEB-Approved 2012 IRM Rate Application. The updated distribution revenue better reflects the customer class revenue to cost coverage and significantly reduces the cross subsidization. Table 2 above provides the 2011 Cost of Service Distribution Revenue Adjusted for 2012 OEB-Approved Revenue to Cost Ratios.

4.4 Milton Hydro agrees with OEB staff, Energy Probe and VECC that all customer classes should be allocated the Z-Factor costs. Milton Hydro submits that the 2011 customer counts are out of date and that the Fixed Rate Rider should be based on the best available actual customer/connections count at this time, which Milton Hydro submits, is August 2014.

5. Relief Sought

5.1 Milton Hydro is seeking recovery of its ice storm costs in the amount of $935,507 plus carrying charges of $11,460 for a total cost of restoration of electricity of $946,967 by way of a Fixed Rate Rider over eighteen (18) month commencing November 1, 2014 and ending April 30, 2016, as filed in Milton Hydro's Z-Factor Application.

5.2 Milton Hydro is seeking approval to update its OEB-Approved 2011 distribution revenue for the revenue to cost ratios as approved by the OEB in Milton Hydro's 2012 IRM Rate Application to significantly reduce the potential cross subsidization of Milton Hydro's Z-Factor costs thereby addressing the concerns of Energy Probe.

5.3 Milton Hydro is seeking approval to base the calculation of the Fixed Rate Rider on its August 2014 actual customer/connections count for all customer classes.

5.4 Based on the above Milton Hydro is requesting Ontario Energy Board approval for the Fixed Rate Riders, as set out in Table 5 below, for the recovery of prudently incurred costs to restore electricity during and after the December 21st and 22nd 2013 ice storm.

Table 5

Fixed Rate Riders for Z-Factor Costs Recovery

Customer Class	Fixed Rate Rider
Residential	1.07
General Service <50kW	2.73
General Service 50 to 999 kW	21.39
General Service 1000 to 4999 kW	213.95
Large Users	665.10
Umetered Scattered Load	0.90
Sentinel Lighting	0.26
Street Lighting	0.29

5.5 Milton Hydro further requests Ontario Energy Board approval to track the costs and recovery in the Uniform System of Accounts ("USoA") account 1572 Extraordinary Event Costs – Ice Storm Z-Factor for disposition at a date to be determined.

Respectfully submitted this 4th day of September, 2014.

Original signed by Cameron McKenzie

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