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Ontario

BY EMAIL

December 15, 2014

Ontario Energy Board
P.O. Box 2319
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2300 Yonge Street
Toronto ON M4P 1E4
Kirsten.Walli@ontarioenergyboard.ca

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Essex Powerlines Corporation
2015 IRM Distribution Rate Application & Smart Meter Recovery
Board Staff Submission
Board File Numbers: EB-2014-0072 and EB-2014-0301

In accordance with Procedural Order No.1, please find attached the Board Staff Submission in the above combined proceeding. This document is being forwarded to Essex Powerlines Corporation and to all other registered parties to this proceeding.

Essex Powerlines is reminded that its Reply Submission is due by January 12, 2015.

Yours truly,

Original Signed By

Georgette Vlahos
Analyst, Electricity Rates & Accounting

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2015 ELECTRICITY DISTRIBUTION RATES

Essex Powerlines Corporation

EB-2014-0072
EB-2014-0301

December 15, 2014

Board Staff Submission
Essex Powerlines Corporation
2015 IRM Rate Application & Smart Meter Recovery
EB-2014-0072 and EB-2014-0301

Introduction

On September 23, 2014, Essex Powerlines Corporation ("Essex Powerlines") filed an application seeking approval for its final smart meter installation costs (EB-2014-0301). On September 26, 2014, Essex Powerlines filed an application for the annual Price Cap IR adjstument (EB-2014-0072).

On September 29, 2014, Essex Powerlines filed a letter with the Board, requesting that the Board consolidate and hear the two applications together. The Board accepted this request.

Essex requested an effective date of May 1, 2014 for its Price Cap IR adjustment and January 1, 2014 for its smart meter rate riders. As part of its interrogatory responses, Essex Powerlines revised its request to an effective date of May 1, 2015 and an end date of April 30, 2015 for its smart meter rate riders to align with the implementation of its Price Cap IR application.

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 Essex Powerlines.

Incentive Regulation Application (EB-2014-0072)

Loss of Customers

In its Application, Essex Powerlines claimed a loss of load due to losing one of the two customers in its intermediate (GS 3,000 to 4,999 kW) rate class in 2014. Essex Powerlines analyzed the current usage compared to the latest Board approved volumetric forecast and noted that "while all other classes have not changed significantly, the intermediate (GS 3,000 to 4,999 kW) class has decreased by 100% ... [d]ue to these facts Essex Powerlines has changed the volumetric data used for the intermediate (GS 3,000 to 4,999 kW) class to ensure the allocation of the tax sharing,

deferral and variance and RTSR rate riders are more accurately applied[1]."

In its interrogatories, Board staff noted that section 3.4 of Chapter 3 of the *Filing Requirements for Electricity Distribution Rate Applications* lists loss of customer load as a specific exclusion from the IRM rate application process. Board staff requested that Essex Powerlines explain the nature of the adjustment to its billing determinants[2].

In its responses, Essex Powerlines noted that it removed the GS 3,000 to 4,999 kW consumption data as this class has only 2 customers - one is the embedded distributor Hydro One Networks, who does not get charged rate riders, and the other is Heinz who ceased to be a customer as of June 2014. Essex Powerlines noted that the consumption data associated with this rate class was removed for the calculation of the rate adders for Deferral and Variance Accounts, tax savings and RTSR and that it did not reallocate any other costs. Essex Powerlines noted that it believes this is appropriate as it is not making changes to the base rates, and only using them for the rate riders which will be used to collect these additional amounts for one year only. Otherwise, Essex Powerlines noted, a recovery would be approved for which there are no customers in the class from which the allocated amount would be recoverable.

Board staff supports the omission of the consumption data for the GS 3,000 to 4,999 kW class for purposes of calculating the rate riders for Deferral and Variance Accounts, tax savings and RTSR.

The *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative* (EDDVAR), page 24, states that:

> "with respect to the volume that should be used to calculate the rate riders, the Board agrees that the most recent Board-approved volumetric forecast should be used. Where there are material differences between the latest Board-approved volumetric forecast and the more recent volumetric data, a distributor should use the most recent 12-month of actual data."

In Essex Powerlines' specific case, it can be reasonably assumed that the consumption data for the GS 3,000 to 4,999 kW rate class will decrease to zero for the 2015 rate year

[1] EB-2014-0072, Essex Powerlines Corporation 2015 IRM Application, Exhibit 1, Tab 2
[2] EB-2014-0072, Interrogatory Responses, Board staff IR#9

due to Heinz ceasing to be a customer in June of 2014. The use of the most recent data would overstate the expected consumption for that rate class in the 2015 rate year.

Staff notes that in a cost of service application, forecast billing determinants are often used for matters such as allocating deferral and variance accounts, and constructing the associated rate riders. Staff also notes that the EDDVAR report and the IRM Filing Requirements do not address the use of forecast billing determinants. However, given that Essex Powerlines is proposing a discreet revision for a known change to the distributor's load for the year in which rate recovery will take place, Board staff has no concerns with the adjustment.

This should not however be construed as setting a precedent for distributors to make comprehensive changes to their historical billing determinants or to use forecast billing determinants in an IRM application. Staff notes that if the Board does not approve the adjustment made by Essex Powerlines, there will be no harm to the utility as both transmission costs and deferral and variance account balances will be trued up in due course. Staff supports this discreet change in the spirit of minimizing future balances.

Retail Service Transmission Service Rates

As part of its interrogatories, Board staff noted that Essex Powerlines reversed the Hydro One Sub-Transmission rates applicable for line connection and transformation connection on tab 10 of the Rate Generator Model. In its responses, Essex Powerlines acknowledged the error and requested that Board staff make the necessary corrections to the model. Board staff has no concerns with the revised data supporting the updated Retail Transmission Service Rates proposed by Essex Powerlines. Pursuant to the Board's Guideline G-2008-0001, Board staff notes that the Board will update the applicable data at the time of the Board's Decision on the Application based on the Uniform Transmission Rates in place at that time.

Board staff notes that in the GS 3,000 to 4,999kW rate class, Essex Powerlines has not entered the volumetric data used for this rate class to calculate RTSRs, as per the explanation provided in the "Loss of Customers" section above. Staff is in agreement with this omission as this rate class only has two customers – one of which does not get charged RTSRs (Hydro One), and the other which was lost in June 2014 (Heinz).

Tax-Savings

In response to Board staff interrogatory #5, Essex Powerlines agreed that the tax impact amount entered in the Rate Generator Model does not reconcile to Essex Powerlines' previous cost of service Revenue Requirement Work Form (EB-2009-0143). Essex Powerlines requested that Board staff make the necessary adjustment to the model. Staff notes that the incremental tax savings is $157,696, resulting in a tax-sharing amount of $78,848 (50%).

Board staff notes that in the General Service 3,000 to 4,999kW rate class, Essex Powerlines has not entered the volumetric data used for this rate class to calculate tax savings rate riders, as per the explanation provided in the "Loss of Customers" section above. Staff is in agreement with this omission as noted above.

Deferral and Variance Account Disposition

Essex Powerlines completed the Deferral and Variance Account continuity schedule included in the 2015 IRM Rate Generator Model at Tab 5 for its Group 1 Deferral and Variance Accounts. In its interrogatories, Board staff noted that Essex Powerlines did not enter the Group 1 Deferral and Variance Account amounts, both principal and interest, approved for disposition in its 2012 IRM proceeding (EB-2011-0166), into the Rate Generator Model. Staff also noted that Essex Powerlines omitted the projected interest January 1, 2014 to December 31, 2014 and January 1, 2015 to April 30, 2015 for Account 1551 – Smart Metering Entity Charge Variance[3]. In its responses, Essex Powerlines agreed and provided a revised continuity schedule in PDF form and requested that Board staff make the necessary adjustments to the Excel version of the Rate Generator Model.

As originally filed, Essex Powerlines' total Group 1 Deferral and Variance Account balances amounted to a debit of $1,522,723. The balance of Account 1589 – Global Adjustment Account, applicable only to Non-RPP customers, was a credit of $5,695,973. These balances also include interest calculated to April 30, 2015. With the revisions noted above, Board staff notes that the total Group 1 Deferral and Variance Account balances now amount to a debit of $1,608,805. The balance of Account 1589

[3] EB-2014-0072, Interrogatory Responses, Board staff IR #1

– Global Adjustment Account is a credit of $5,535,965. Based on the threshold test calculation, the Group 1 Deferral and Variance Account balances equate to $0.0032 per kWh, which exceeds the threshold; as such, Essex Powerlines has requested disposition of these account balances over a one-year period.

Board staff has reviewed Essex Powerlines' Group 1 Deferral and Variance Account balances and notes that the principal balances as of December 31, 2013 reconcile with the balances reported as part of the *Reporting and Record-keeping Requirements*. Also, Board staff notes that the preset disposition threshold has been exceeded. Accordingly, Board staff has no issue with Essex Powerlines' request to dispose of its 2013 Deferral and Variance Account balances.

With respect to the disposition period for Essex Powerlines' Group 1 Deferral and Variance Accounts, Board staff supports a one-year disposition for Group 1 Accounts.

Board staff would like to comment on the year-over-year balances of Essex Powerlines' Global Adjustment Account (Account 1589), applicable only to Non-RPP customers. Board staff notes that in its 2012 IRM application (EB-2011-0166), the balance approved for disposition for Essex Powerlines' Account 1589 was a credit of $3,310,147. In its 2014 IRM application (EB-2013-0128), the balance approved for disposition for the Account 1589 was a credit of $8,786,415. As noted previously, the balance being sought for disposition as part of Essex Powerlines' current Application is a credit of approximately $5.5 million. Staff is concerned with the large year-over-year credit balances accumulating in Essex Powerlines' Account 1589.

Board staff requests that Essex Powerlines report, in its reply submission, its year to date balance in Account 1589 for 2014 and an approximate forecast with respect to the direction of this balance by year end. Board staff also invites Essex Powerlines to comment on why it believes the balances in this particular account are consistently large.

Board staff is concerned because the large swings in these credit balances result in significant bill impacts for the non-RPP customers, most notably for the GS<50kW rate class. For example, staff estimates the following bill impacts for Essex Powerlines' current Application for its non-RPP customers:

Rate Class	Total Bill Impact (%)
Residential	7.52%
GS<50kW	12.20%
GS 50 to 2,999kW	9.72%
Unmetered Scattered Load	6.63%
Sentinel Lighting	4.87%
Street Lighting	4.32%

Board staff notes that although the majority of the bill impacts are below the 10% threshold, if the balance in Account 1589 were to be a debit in a future year, the bill impacts for that year would be significantly worse. Board staff invites Essex Powerlines in its reply submission to comment on the accuracy of the above impacts, and if necessary file any revisions it may have.

Given that this year's balance to be disposed is a smaller credit balance than the previous year's disposition amount, extending the disposition period would only make the bill impacts for 2015 worse. Deferring disposition would also make the bill impacts for 2015 worse as large credit riders would be coming off the bill with no offsetting credit of any kind. Therefore, it is Board staff's view that a one year disposition of the 2013 balance of the Account 1589 is the best option in terms of mitigating rate impacts. Board staff recommends that depending on Essex Powerlines' reply regarding the reasons for the large credit balances and the swings in those balances, the Board may wish to do a detailed review of the subject account.

Smart Meter Recovery Application (EB-2014-0301)

Approvals Sought

In the Smart Meter Application, Essex Powerlines applied for the following approvals:

- Smart Meter Disposition Rider (SMDR) – rate rider of ($1.15) per Residential customer per month and $10.49 per General Service less than 50kW customer per month effective January 1, 2015.
- Smart Meter Incremental Revenue Requirement Rate Rider (SMIRR) – rate rider

of $1.11 per Residential customer per month and $3.81 per General Service less than 50kW customer per month effective January 1, 2015.

Essex Powerlines completed its smart meter deployment and operationalization by the end of 2011. In response to Board staff interrogatory #10, Essex Powerlines updated its costs to the end of 2015 related to OM&A for smart meters and TOU and for any customer growth. As such, Essex Powerlines is applying for recovery of costs related to the completion of smart meter deployment, with the exception of stranded meter costs to be disposed of in Essex Powerlines' next cost of service application (which is scheduled for 2016 rates). As such, Board staff submits that Essex Powerlines has complied with Guideline G-2011-0001 in this regard.

Updated Evidence

In its responses to Board staff interrogatories, Essex Powerlines made or confirmed changes to its smart meter model for the following:

- Addition of capital and OM&A actual costs for 2012 and 2013 and forecasted costs for 2014 and 2015 (Board staff IR #10b);
- Corrected tax rates (Board staff IR #16);
- Re-submitted Smart Meter Model v.5.0 (applicable for 2015 applications). Essex Powerlines has originally submitted version 4.0, applicable for 2014 rate applications (Board staff IR #17); and
- Revised effective dates and recovery periods (Board staff IR #18).

Also, in response to Board staff interrogatories, Essex Powerlines filed a revised Smart Meter Model and class-specific SMDRs and SMIRRs to reflect changes noted in Board staff interrogatories and which are summarized below, however, as Board staff discuss below, Essex Powerlines has made input errors in the revised Smart Meter Model which have corrupted some of the calculations. Board staff has attempted to correct the calculation errors, and has provided a revised smart meter model for review by parties. Board staff's corrections would revise the SMDR for the General Service<50kW rate class as shown in the tables below.

Table 1: Original and Revised SMDRs and SMIRRs for Residential Rate Class

Rate Rider	Per Original Application		Revised for Interrogatory Responses		As Per Board staff Revised Model	
	Proposed Effective Date	Amount ($/month)	Proposed Effective Date	Amount ($/month)	Proposed Effective Date	Amount ($/month)
SMDR	January 1, 2015	($1.15)	May 1, 2015	$(0.04)	May 1, 2015	$(0.04)
SMIRR	January 1, 2015	$1.11	May 1, 2015	$1.07	May 1, 2015	$1.07

Table 2: Original and Revised SMDRs and SMIRRs for GS<50kW Rate Class

Rate Rider	Per Original Application		Revised for Interrogatory Responses		As Per Board staff Revised Model	
	Proposed Effective Date	Amount ($/month)	Proposed Effective Date	Amount ($/month)	Proposed Effective Date	Amount ($/month)
SMDR	January 1, 2015	$10.49	May 1, 2015	$15.53	May 1, 2015	$9.32
SMIRR	January 1, 2015	$3.81	May 1, 2015	$3.80	May 1, 2015	$3.80

Prudence of Smart Meter Costs

The following tables[4] summarize Essex Powerlines' overall per meter costs, costs above minimum functionality and capital and OM&A expenses:

Average Capital Cost Per Meter

Smart Meter Capital Costs, Including Costs Exceeding Minimal Functionality	$3,354,090
Remove Smart Meter Capital Costs Exceeding Minimal Functionality	**($3,791)**
Smart Meter Capital Costs, Excluding Costs Exceeding Minimal Functionality	$3,350,299

[4] Per tables 2 and 4 of response to Board staff Interrogatory #18

Number of Meters Installed	28,775
Average Capital Cost per Meter, Excludes Costs Exceeding Minimum Functionality	$116.43

Average Total Cost Per Meter

Smart Meter Total Costs, Including Costs Exceeding Minimal Functionality	$3,519,105
Remove Smart Meter Total Costs Exceeding Minimal Functionality	**($34,232)**
Smart Meter Total Costs, Excluding Costs Exceeding Minimal Functionality	$3,484,873
Number of Meters Installed	28,775
Average Total Cost per Meter, Excludes Costs Exceeding Minimum Functionality	$121.11

On October 26, 2010, the Board issued a letter to all licensed distributors requiring them to file information about smart meter investments on a quarterly basis. On March 3, 2011, the Board issued the Monitoring Report, Smart Meter Investment – September 2010 ("the Monitoring Report"). The Monitoring Report summarized the total smart meter related investments of 78 distributors, as of September 30, 2010, and showed an average cost of $226.92 per smart meter. Board staff observes that Essex Powerlines' costs are below the average costs identified in the Monitoring Report. Given the fact that Essex Powerlines' per meter costs do not exceed values shown in the Monitoring Report, Board staff takes no issue with the nature and quantum of Essex Powerlines' reported per meter costs.

In addition, Board staff notes that Essex Powerlines has explained and supported the nature and quanta of its smart meter costs in the Smart Meter Application and in response to interrogatories.

Board staff observes that Essex Powerlines was authorized to deploy smart meters under O. Reg. 427/06 as amended by O.Reg. 238/08 in accordance with the London Hydro RFP process. Essex Powerlines complied with the regulation and the London Hydro RFP process for the procurement of smart meters and associated equipment and for services to install and operate the smart meters and associated equipment. As such, Board staff considers that the documented costs are prudent.

Costs Beyond Minimum Functionality

Essex Powerlines' Application included a request to recover $3,791 in capital costs and $30,441 in OM&A costs beyond minimum functionality, as defined in the combined proceeding related to Smart Meters (EB-2007-0063). These costs include CIS system upgrades, TOU implementation, web presentment, bill presentment and integration with MDM/R. Board staff takes no issue with the nature or quanta of Essex Powerlines' documented costs above minimum functionality based on the documentation and explanations provided in evidence.

Other Matters

Stranded Meters

Essex Powerlines is proposing not to dispose of stranded meters at this time, but to deal with disposition in its next rebasing application, scheduled for 2016 rates. The estimated net book value of the stranded meters as of December 31, 2015 is $1,567,710.[5] The stranded conventional meters continue to be amortized until disposition. Based on the number of installed smart meters, approximately 28,000, the estimated net book value per stranded conventional meter is about $55.

Board staff submits that Essex Powerlines' proposal is in accordance with Guideline G-2011-0001.

Board staff notes that, at the time of Essex Powerlines' next rebasing application, Essex Powerlines should make a proposal for allocating the net book value of stranded meters to the Residential and GS < 50 kW classes. Board staff observes that a standard approach approved by the Board in recent proceedings is to use the ratio of installed conventional meter costs by customer class from sheet I7.1 of the Cost Allocation model as found in the distributor's most recent cost of service application. Essex Powerlines should consider this, or a similar approach for requesting disposition and recovery via class-specific Stranded Meter Rate Riders in its forthcoming cost of service application.

[5] EB-2014-0301, Interrogatory Responses, Board Staff IR#11

Cost Allocation – SMDR

As part of its interrogatory responses, Essex Powerlines re-submitted a Smart Meter Model to account for version 5. Board staff notes that on tab 10A, the meter cost for capital allocated to the Residential rate class is 80% and the General Service rate class is 22%, totaling 102%. Board staff asks Essex Powerlines, in its reply submission, to verify the correct percentages attributable to these rate classes, as the amounts should total to 100%.

Revised SMDR

As noted previously, the revised Smart Meter Model submitted as part of Essex Powerlines' interrogatory responses has a number of errors. Staff notes that Essex Powerlines may have grouped all sheets, and then input the date "November 26, 2014" on sheet 1. Unfortunately, by grouping the sheets, this value then appeared in cell D25 on all sheets, and overwrote certain formulae. This affected calculations on only a few sheets; Board staff has attempted to correct the necessary formulae on affected sheets.

Staff notes that as a result of these corrections, the SMDR on sheet 10A has changed from $15.53 per General Service<50kW per customer/month as filed in Essex Powerlines' interrogatory responses, to $9.32 per customer/month.

As part of this submission, Board staff has attached a revised Smart Meter Model (in both Adobe PDF and Microsoft Excel formats) with the above noted corrections, and asks that Essex Powerlines, in its reply submission, confirm the accuracy of the revised model. In the alternative Essex Powerlines should submit any corrected model, in PDF and Excel formats, with explanations.

Effective Date and Duration

Essex Powerlines initially sought approval to establish a Smart Meter Disposition Rate Rider ("SMDR"), and a Smart Meter Incremental Revenue Requirement Rate Rider ("SMIRR"), each to be effective January 1, 2015. As part of its interrogatory responses, Essex Powerlines revised its request to an effective date of May 1, 2015 and an end date of April 30, 2015 (for the SMDR). Essex Powerlines expects to submit a cost of service application for rates effective January 1, 2016, but is proposing that the smart

meter riders overlap for this period. Essex Powerlines noted that the longer one year period mitigates the bill impacts for the Residential and General Service < 50 kW rate classes. This being said, Essex Powerlines also noted that the overall impact for the General Service<50kW rate class is over 10% and therefore a longer period (such as 18-months), could mitigate the increase and also align the removal of this rider with rates effective January 1, 2017.

Board staff is agreeable with the proposed effective date of May 1, 2015 for Essex Powerlines' SMDR and SMIRR as this aligns with the utility's current Incentive Regulation Application before the Board (EB-2014-0072). Board staff notes that the bill impacts provided by Essex Powerlines as part of its interrogatory responses require updating as they take into account an SMDR of $15.53 per General Service<50kW per customer/month as opposed to $9.32 per customer/month (or the equivalent number once Essex confirms its calculations) as per of Board staff's revised model noted in the preceding section.

Board staff asks Essex Powerlines, in its reply submission, to confirm the accuracy of the revised model, SMDR and SMIRR rate riders and provide updated bill impacts based on a May 1, 2015 effective date over a 12-month period. Board staff asks that Essex Powerlines ensure that these bill impacts take into account its Price Cap IR application also currently before the Board. Based on the parameters of a price escalator of 1.60%, stretch factor of 0.15%, and the revised SMDR and SMIRR rate riders as calculated in Board staff's revised model (attached to this submission), Board staff estimates that the impacts for both the Residential and General Service<50kW rate classes (RPP) should be below the 10% threshold for a range of typical consumption levels. As such, Board staff submits that a 12-month recovery period should not result in bill impacts that should require rate mitigation such as a longer recovery period, and specifically for the GS<50 kW rate class. Essex Powerlines should confirm this in recalculated bill impacts as part of its reply submission. Board staff notes that, if Essex Powerlines confirms that the bill impacts for the General Service<50kW rate class still exceed 10%, the Board may wish to adopt a disposition period of 18-months for the GS < 50 kW SMDR in order to mitigate these impacts.

All of which is respectfully submitted