Association of
Municipalities of Ontario

OFFICE OF THE PRESIDENT

Sent By Email: boardsec@oeb.gov.on.ca

December 1, 2010

Mary Anne Aldred
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Aldred:

AMO's response to the Ontario Energy Board (OEB)
I am writing to respond to the Review of Electricity Distribution Cost Allocation Policy (Board File EB-2010-0219) as part of the consultation process around the Elenchus Report. While the report deals with a number of selected cost allocation policy issues, our comments are focused on the cost allocation of streetlights.

First of all, let me say thank you for allowing the Association to participate in this important process. AMO does not usually get involved in OEB issues but we felt that this issue merited our attention because of the potential impact on our members as large energy consumers. According to a 2008 IESO Report, the municipal sector consumes well over 6.6 billion kilowatt hours of electricity per year—approximately 14% of which is dedicated to streetlights.[1] Street lighting is an important public safety matter in the community and our members take the provision of this particular social good very seriously.

Second, AMO is fully supportive of the aims of the OEB's cost allocation policies to apportion costs fairly and to avoid cross-subsidization amongst rate classes. AMO decided not to intervene in the process that commenced with the 2007 Report because our Board recognized that streetlight costs were historically under-assessed. The rate adjustments that resulted from the 2007 Cost Allocation Report addressed relationships among rate classes that were largely unchanged for the past twenty years and that had some large inequities and cross-subsidization. AMO does not take issue with the OEB's targeted Revenue-to-Cost Ratios of 70-120% for the streetlight class—as long as the method used to determine these ratios fairly represents the actual costs to service streetlights.

As a result of the post 2007 Cost Allocation Model, most municipalities were hit with incredibly hefty rate increases for streetlights between 2007 and 2009. However, two utilities

[1] IESO, *Ontario Municipalities: An Electricity Profile*, January 2008.

(Kitchener-Wilmot Hydro and Kingston Utilities) implemented the changes in a way to minimize the number of connections used (which are multiplied by the rate), which served to mitigate most of the impacts of the revenue-to-cost ratio impacts.

Table #1: Post 2007 CA Model Allocation of Streetlight Connections and Rates

LDC	# of Customer from CA	Street Light Connections from CA	% Street Light Connections to Customers	Street Light R:C Ratio - Starting Point
Atikokan Hydro Iinc.	1,745	618	35.4%	22.8%
Brantford Power Inc.	36,907	10,056	27.2%	14.8%
Burlington Hydro Inc.	64,730	1,581	2.4%	15.1%
Cambridge and North Dumfries Hydro Inc.	50,553	6,613	13.1%	13.7%
Centre Wellington Hydro Ltd.	6,015	1,568	26.1%	10.6%
Chapleau Public Utilities Corporation	1,359	341	25.1%	17.4%
Collingwood Utility Services Corp	13,614	2,715	19.9%	15.5%
Enersource Hydro Mississauga	175,316	10,240	5.8%	25.2%
Festival Hydro Inc.	18,760	1,146	6.1%	28.6%
Halton Hills Hydro Inc.	18,323	3,944	21.5%	15.1%
Hydro One Brampton	133,217	19,310	14.5%	20.1%
Hydro One Networks Inc.	1,177,552	5,561	0.5%	60.0%
Innisfil Hydro Distribution Systems Limited	13,689	2,309	16.9%	9.4%
Kenora Hydro Electric Corporation Ltd	5,835	550	9.4%	56.2%
Kingston Electricity Distribution Limited (Connections divided by 10)	27,142	516	1.9%	82.4%
Kitchener-Wilmot Hydro Inc. (2010 using relay/service entrance switches)	27,142	1,585	5.8%	127.3%
Kitchener-Wilmot Hydro Inc. (Original)	87,448	22,777	26.0%	26.2%
Lakefront Utilities Inc.	8,605	2,693	31.3%	14.4%
Lakeland Power Distribution Ltd.	8,943	2,058	23.0%	16.9%
London Hydro Inc	137,240	14,037	10.2%	16.9%
Midland Power Utility Corporation	6,446	1,469	22.8%	23.5%
Milton Hydro Distribution Inc	30,459	2,895	9.5%	12.8%
Newmarket Hydro Ltd.	25,718	6,599	25.7%	9.0%
Niagara-on-the-Lake Hydro Inc.	7,312	884	12.1%	14.9%
North Bay Hydro Distribution Limited	23,820	5,459	22.9%	14.8%
Oakville Hydro Electricity Distribution Inc.	54,268	15,062	27.8%	12.0%
Orangeville Hydro Limited	11,258	1,524	13.5%	7.3%
Orillia Power Distribution Corporation	12,080	3,487	28.9%	20.8%
Oshawa PUC Networks Inc.	48,753	10,076	20.7%	23.2%
Parry Sound Power Corporation	3,404	1,061	31.2%	13.6%
PowerStream Inc.	211,423	10,690	5.1%	54.4%
Rideau St. Lawrence Distribution Inc.	5,690	1,635	28.7%	41.6%

Thunder Bay Hydro Electricity Distribution Inc.	49,152	12,769	26.0%	13.5%
Toronto Hydro-Electric System Limited	675,521	113,377	16.8%	10.4%
Wasaga Distribution Inc.	10,067	2,134	21.2%	6.0%
Welland Hydro-Electric Systems Corp.	21,003	6,495	30.9%	11.9%
Wellington North Power Inc.	3,336	942	28.2%	9.1%
West Coast Huron Energy Inc. – Goderich Hydro	3,758	680	18.1%	27.8%
Whitby Hydro Electric Corp.	34,855	10,228	29.3%	23.7%
Woodstock Hydro Services Inc.	15,156	2,509	16.6%	24.6%

Kitchener-Wilmot Hydro and Kingston Distribution stand out for having much higher Street Light R:C Ratio - Starting Point—which is as a result of using fewer number of connections (Street Light Connections from CA). This is a result of both utilities using relay/service entrance switches (or daisy chains) as the connection points as opposed to individual street lights. Contrasting the Kitchener-Wilmot Hydro approaches (the utility revised their numbers after the initial Cost Allocation Study overstated the number of street light connections) reveals the daisy chain approach results in 1,585 connections versus 22,777 by counting the number of streetlights. Kitchener-Wilmot Hydro found that 99% of the municipal streetlights were group controlled, which resulted in a much lower charge to the municipal customer.[2]

Using the daisy chain approach is an acceptable practise, but the OEB has not clarified this to date and a number of LDCs continue to struggle as a result. In fact, there appears to be contradictory advice in existing OEB documentation. In Section 9.2 (Definition of Customer and Connection for Filings) of *RP-2005-0317 Cost Allocation Review Board Directions on Cost Allocation Methodology for Electricity Distributors* states:

> The accounts/sub-accounts that are allocated based on the number of customers or connections in total or in part were listed in Appendices 7.2 and 7.3. For the purpose of the cost allocation filings, a "customer" is generally defined by a meter point that measures energy consumed over a period of time.
>
> For unmetered loads, the number of connections will be used to allocate some customer-related costs. For street lights, sentinel lights and unmetered scattered loads, the number of connections will be the actual number of devices.
>
> In the case of street lights, one "connection" frequently links a number of fixtures to the distribution system and simply using the number of devices may overstate the number of physical connections to the distributor's system. Therefore, where better information is available, distributors must apply a connection factor to the number of streetlight fixtures for the purpose of determining the customer allocation factor.

This language is unclear and the term "daisy chain" is not used, which is why only two LDCs to date have used the daisy chain approach. The instructions appear to initially direct LDCs

[2] Appendix 7 in the Kitchener-Wilmot Hydro Inc. Rate Application (EB-2009-0267 Filed: August 28, 2009) explains this allocation thoroughly.

to use the numbers of devices, but then suggests that better information may be available on actual connections where a number of devices are handled with one connection (the daisy chain).

AMO is concerned that the stated objective of the current review that there "are potential for refinements" because LDCs have adjusted their revenue-to-cost ratios to fall within the current target ranges. We believe that unless the existing problems are corrected, any further adjustments to the Revenue-to-Cost Ratios will undermine the OEB's objectives and unfairly punish our municipal members.

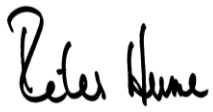
As a result, we have three requests related to the manner in which costs to service streetlights are determined. First, the OEB should clearly and strongly state that LDCs are to use the daisy chain approach to determining the number of streetlight connections from this point onwards. All future rate applications should reflect this method as it more fairly reflects the actual costs to service streetlights and avoids the streetlight class subsidizing other rate classes. All LDCs should be required to provide an explanation on how they have determined the number of streetlight connections as part of their rate application just as Kitchener-Wilmot Hydro has done. Second, the OEB should define connections more clearly in its existing documentation and communicate this clarification to LDCs and other stakeholders. Third, the Board should place a moratorium on any further movement in Revenue-to-Cost Ratios until the first two requests have been evenly and consistently implemented across all LDCs in the province. According to Section 2.3.4 of the *Application of Cost Allocation for Electricity Distributors Report of the Board (EB-2007-0667:*

> a principle of rate making is that rate stability in most instances is desirable...Rate instability of this nature is confusing to consumers, frustrates their energy cost planning and undermines their confidence in the rate making process...Another principle of rate making is the avoidance of rate shock. Proposed rate changes should consider the ability of consumers to react to their new costs. In aligning rate levels closer to costs, reducing a high revenue-to-cost ratio for any one class requires an offsetting increase to one or more other classes.

The impact of the 2007-2009 rate changes definitely did not take this into consideration. In Hamilton, for example, the rate increases meant unbudgeted impacts of $384,297 in 2008 and $917,179 in 2009. Among nine LDCs that filed in 2008, there was an average of a 204% increase in the monthly service charge for streetlights. As a result AMO requests that the Board wait until the next round of rate applications (2015) to readjust streetlight Revenue-to-Cost Ratios. Finally, AMO suggests that these increases were an example of rate shock that should be avoided. In the future, both the OEB and LDCs should take greater strides to communicate potential rate impacts to consumers so that they can budget appropriately.

AMO continues to work with our members to promote energy management at the municipal level and to conduct outreach to the LDC community to reduce our collective energy use and provide maximum value to the taxpayers of Ontario. We also look forward to working with the OEB to meet these goals starting with the issues addressed herein.

Yours sincerely,



Peter Hume
President

cc: Hon. Rick Bartolucci, Minister of Municipal Affairs & Housing
Joanne Campea, Chief of Staff – Minister’s Office, Ministry of Municipal Affairs & Housing
David Lindsay, Deputy Minister, Ministry of Energy
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