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HYDRO OTTAWA

Ontario Energy Board
2006 Electricity Distribution
Rate Handbook

Reply Argument

February 28, 2005

Overview

Hydro Ottawa filed argument on the 2006 EDR process on February 14, 2005. This provided the position of Hydro Ottawa on the alternatives in the draft 2006 Electricity Distribution Rate Handbook (the "Handbook") and other areas of concern that will not be repeated in this reply. However, there are three issues in the arguments by others on which Hydro Ottawa would like to make further comment.

Section 1 Introduction

The Schools Coalition has proposed substantial new additions to Section 1 of the Handbook on the filing requirements for distributors. Hydro Ottawa submits that the Distribution Rate Handbook is the inappropriate location to set out procedural matters. The OEB has Rules of Practice and Procedure, with associated Practice Directions, that apply to all proceedings of the Board. To create new requirements to essentially bypass the normal regulatory process is not appropriate for any proceeding. Hydro Ottawa will continue to cooperate with all intervenors in accordance with Board directions.

Section 10.5 Distribution Loss Factor

A number of intervenors have supported a change to how distribution losses are treated. LPMA, Page 30 of 32, supports a new option not in the draft handbook. AMPCO and the CCC both support Alternative 2.

"AMPCO supports Alternative 2 because it helps to restore the incentive for utility to control losses". (Section 10.5 of the AMPCO Submissions.)

"The Council supports Alternative 2 as it creates an incentive for the LDC to control losses." (Page 7 of 22 of the Final Submission of the Consumers Council of Canada.)

In all cases, few details are provided on how the alternative to the status quo would work in practical terms. The calculation of annual loss factors is not a simply matter and no submissions have highlighted the extent to which the annual loss factor is an estimate. The annual loss factor is calculated as the percentage difference between the kilowatt-hours (kWhs) purchased and the kWh sold to customers. The measure of the kWh purchased is very precise because purchases align with the month-end closing. Wholesale meters can be read at midnight on December 31st of each year. Sales however, cannot be measured with this precision. Hydro Ottawa bills the majority of its customers on a bi-monthly basis. Therefore, with the delay waiting for spot market pricing from the IESO, the energy consumed by customers for December is billed starting in mid-December and ending in mid-March of the next year. Most large distributors will close their financial books for a year before the end of January in the next year. At this point, less than half of the energy consumed by bi-monthly customers in December has been billed, and approximately one-third of the December energy for monthly billed customers is still to be billed. Therefore, in determining the annual kWh sales for the year, a significant portion must be estimated. In years in which there are significant weather changes in November, December and January, this estimate can vary considerably. In the case of Hydro Ottawa, there is typically close to 1 billion of unbilled kWh each year-end. This is energy consumed in

December by customers, but not yet scheduled to be billed. Even if the unbilled estimate is 95% accurate, this can lead to a variation in kWh sales of + / - 50 million kWh, creating a large change in the calculated loss factor from one year to the next. As a result, loss factors must always be looked at on a multi-year average.

Any change from the status quo needs to be reviewed in detail to ensure that the risk to distributors is reasonable and there is no rate volatility for customers. There has been insufficient examination at this time to fully understand the implications of a change. The OEB is therefore encouraged to leave this unchanged for 2006.

Chapter 15 Service Quality Indicators

The draft 2006 Handbook contemplates leaving the service quality indicators (SQIs) unchanged for 2006. Hydro Ottawa supports this proposal. However, the Electrical Safety Authority has requested that a change be made to the SQI for cable locates. Hydro Ottawa understands the reasons for this request, but cautions the Board that increasing standards for SQI's leads to costs to distributors not currently in the 2004 historical test year. Therefore, if this change is adopted, an additional tier 1 adjustment would also be required.

Hydro Ottawa has reviewed it current resources for completing cable locates. With any increase in the minimum standard for cable locates, Hydro Ottawa would need to add additional resources and vehicles at a cost of approximately $100,000 per year per additional vehicle. Furthermore, as Hydro Ottawa has subscribed to a "one call - one locate" service with other types of utility companies for improved customer convenience, it is important that the service quality levels for the electricity industry be equivalent to those of other industries. Otherwise, the electricity industry, with a higher standard, would be subsidizing the locates for other utility companies.

Respectfully submitted on February 28, 2005

Lynne Anderson
Director, Regulatory Services
Hydro Ottawa