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Vince Cooney, Policy Advisor
Rates, Conservation & Policy Evaluation,
Regulatory Policy | Ontario Energy Board
2300 Yonge Street
Toronto, ON
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Your File No. EB-2012-0383

RE: Review of Cost Allocation Policy for Unmetered Loads

Mr. Cooney,

In a five year period, beginning in 2008, energy costs for the flat-rate street lighting customer class escalated significantly. The cost increases were a result of an Ontario Energy Board (OEB) effort (EB-2007-0667) to balance the contribution of fixed connection costs between all customer rate classes (revenue to cost ratio) as it was determined street lighting was under contributing.

The City of Hamilton's street lighting utility costs increased from \$2,700,000 in 2008 to \$4,600,000 in 2011 (combined costs from both Hydro One and Horizon Utilities Corporation). This equates to an increase of 166%. However, energy demand/consumption for the same period only increased by 3.2%.

In 2008, for the HUC service area, Hamilton's Delivery Service Charge increased from \$0.13/connection to \$2.39/connection. This equates to an escalation of 18X at a net cost increase in excess of \$1 million. The Delivery Service Charge is a fixed cost component of the utility bill and therefore left the municipality without any cost mitigation tools. Further concerns surround what the Delivery Service Charge actually represents as it remains undefined.

Additionally, when increases were applied by the LDCs (to the Delivery Service Charge), the municipality was unprepared for the cost impacts as they far exceeded historical energy increases and budget forecasts. In one instance, substantial increases were applied retroactively after a rate class application which considerably impacted a Council approved budget and required augmentation from Municipal reserve accounts.

Street lighting energy budgets, in the context of the recent energy cost escalation, are difficult to manage due to the recent unpredictability and the general lack of understanding or transparency in the rate setting process. Past street lighting rate-class adjustments were brought forward to, and approved by, the OEB in the absence of any rate-payer (Municipal) consultation which eliminated any possibility to fiscally manage and prepare Municipal energy budgets.

The ULWG identifies (in Appendix B) the following goals:

- clarifying terminology
- clarifying methodology,
- providing guidance on flexibility
- developing augmented instructions to LDC's
- providing recommendations for future rate class factors

These form the scope of the cost allocation policy review.

In reference to the listed objectives and the previously noted impacts, the City of Hamilton is seeking clarification as per the following:

A. Clarifying the terminology and methodology used to allocate costs for unmetered loads

- In light of the substantial rate increases in this class, a comprehensive review of weighting factors in relation to the true LDC costs associated with street lighting infrastructure is warranted. The necessity of the construction, maintenance and management of LDC electrical distribution systems, related to the demands of street lighting infrastructure, is inconsequential when compared to other energy consumers. In a high percentage of street lighting installations, electricity is distributed via a distribution system that is not primarily utilized for street lighting, but rather for other energy consumers. **Hamilton seeks a full definition and justification of how Street Lighting impacts the LDC's asset class.**
- The current non-practice of daisy-chaining methodologies for determining the number of connections is not reflective of reality and results in the over-representation of street lighting connections. In Hamilton for example, in HUCs service area, there are an equal number of connections to the number of street lights. There is a one to one relationship between the number of connection and streetlights. This exists despite the fact that the division between street lights connected to HUC distribution and City distribution approaches 50%. **Hamilton seeks review of this process and definition of roles and responsibilities on either side of the demarcation point.**
- The definition of Delivery Service Charge is not clearly articulated and results in inconsistent services supplied by LDCs to municipalities. Roles and responsibilities, particularly involving underground locating and infrastructure maintenance, between LDCs and municipalities are muddled. This fact results in municipalities undertaking activities which are the responsibility of LDCs. **Hamilton seeks clarity on the DSC and what it encompasses.**
- Current methodologies being utilized to estimate the operation time (on-off time – load shape) and demand consumption, for the purposes of energy billing, are not applied consistently from LDC to LDC. Studies have indicated these factors are not representative of actual operation time and demand consumption and typically over represent actual energy usage. **Hamilton seeks the ability to define a local load shape profile and actual demand consumption.**

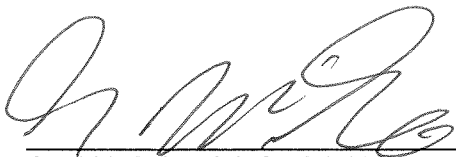
B. Providing further guidance to LDCs on flexibility of, and augmenting instructions provided with, the current Cost Allocation Model with respect to unmetered loads

- Flexibility is needed to allow for the adoption and retrofitting of LED street lighting and adaptive/monitoring control systems.
- Stabilization of rate-class costs is required to assist in energy demand consumption reductions (conservation) undertaken by the municipalities. Unpredictable and

uncontrollable cost increases can be highly detrimental to conservation efforts as they are generally undertaken on an energy payback methodology.

- Tools should be identified in which the municipality and LDCs could utilize to mitigate or better manage cost increases
- Transparent engagement and consultation with the street lighting asset owners prior to rate-class applications is necessary to provide explanation and justification for any and all future cost increases.
- Offsetting lost revenue from reducing load is not a factor that should drive municipal energy budgets, and creates a situation that is not conducive to proactive conservation strategies and policies.

Respectfully submitted



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