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BY EMAIL

November 22, 2011

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Parry Sound Power Corporation
2012 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0193**

In accordance with the Notice of Application and Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Parry Sound Power Corporation and to all other registered parties to this proceeding. This submission is being filed on November 22 because of the time required to review the interrogatory responses filed by Parry Sound Power Corporation on November 18, 2011.

In addition please remind Parry Sound Power Corporation that its Reply Submission is due by November 28, 2011.

Yours truly,

Original Signed By

Daniel Kim
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Parry Sound Power Corporation

EB-2011-0193

November 22, 2011

**Board Staff Submission
Parry Sound Power Corporation
2012 IRM3 Rate Application
EB-2011-0193**

Introduction

Parry Sound Power Corporation (“Parry Sound Power”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”), received on September 29, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Parry Sound Power charges for electricity distribution, to be effective January 1, 2012. The Application is based on the 2011 3rd Generation Incentive Regulation Mechanism.

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 Parry Sound Power.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application models by Parry Sound Power. In response to Board staff interrogatories which requested either a confirmation that these discrepancies were errors or an explanation supporting the validity of the original data filed with the application, Parry Sound Power confirmed certain errors as described below and provided the necessary corrections to the models.

Parry Sound Power included a negative transformer ownership allowance rate in its Revenue Cost Ratio Model. In response to interrogatories from VECC and Board Staff, Parry Sound Power made the necessary correction to the model.

Parry Sound Power completed the 2012 Shared Tax Savings Workform with amounts that Board staff could not verify. In response to Board staff interrogatories, Parry Sound Power provided a reconciliation with their 2011 Revenue Requirement Work Form and has corrected the model.

Parry Sound Power confirmed that a mistake was made by entering in sunset dates for the low voltage service rates and the rate mitigation rate riders. Parry Sound Power has removed the effective dates for the low voltage service rates and the rate mitigation rate riders found in their 2012 IRM Rate Generator.

Board staff makes submissions on the following matters:

- Retail Transmission Service Rates (“RTSR”) Adjustment Workform;
- 2012 Revenue Cost Ratio Model;
- Disposition of Deferral and Variance Accounts as per the *Electricity Distributors’ Deferral and Variance Account Review Report* (the “EDDVAR Report”);
- Account 1521 – Special Purpose Charge (“SPC”); and
- Lost Revenue Adjustment Mechanism (“LRAM”) and Shared Savings Mechanism (“SSM”) Claim.

RTSR ADJUSTMENT WORKFORM (“RTSR Workform”)

Background

Parry Sound Power requested an adjustment to its RTSRs, using the RTSR Workform provided by the Board to assist distributors in calculating their specific RTSR adjustments.

The instruction for filing Sheet “4. RRR Data” of the RTSR Workform is to enter the most recently reported RRR billing determinants (2010 Reporting and Record-keeping Requirements (“RRR”) kWh’s or billed kW’s) and to ensure the billing determinants are non-loss adjusted. The Board approved loss factor is then applied to the metered kWh’s to arrive at the billed values.

In response to Board staff interrogatory #3b, Parry Sound Power indicated that the loss factor from its 2011 tariff of rates and charges is 1.0809. Parry Sound Power noted that since the billing determinants are from 2010, then it seems reasonable that the loss factor also be from 2010 (i.e. 1.0586).

Submission

Board staff submits that the purpose of the RTSR Workform is to attempt to align a distributor’s wholesale electricity costs with the charges recovered from customers. The RTSR Workform uses a distributor’s historical wholesale costs and adjusts these costs once the new uniform transmission rates become available. The most recent historical load is used as a proxy for the test year costs. Board staff submits that the most recent

Board approved loss factor should be used since it should be a better predictor of the wholesale costs and therefore a better proxy to re-calibrate RTSRs unless the applicant can provide evidence that a change in circumstances will have a material impact on the loss factor going forward.

2012 REVENUE COST RATIO MODEL

Background

On June 17, 2011, the Board issued its Decision and Order (EB-2010-0140) in Parry Sound Power's 2011 cost of service rate application. The Board approved the revenue-to-cost ratios proposed by Parry Sound Power with the exception of the Street Lighting rate class. The Board ordered Parry Sound Power to take steps to increase the revenue-to-cost ratio for the Street Lighting rate class to 35% in the test year (2011), 52% in 2012 and 70% in 2013. The additional revenues from these adjustments should be allocated to the General Service Greater Than 50 kW rate class.

Submission

Board staff has reviewed the updated revenue-to-cost ratio adjustments proposed by Parry Sound Power and submits that they are in accordance with the Board's EB-2010-0140 Decision and Order.

DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT

Background

The EDDVAR Report provides that during the IRM plan term, the distributor's Group 1 audited account balances will be reviewed and disposed if the preset disposition threshold of \$0.001 per kWh (debit or credit) is exceeded.

Parry Sound Power completed the 2012 IRM Rate Generator. The 2010 actual year end amount for Group 1 accounts with interest projected to April 30, 2012 is a debit of \$120,600. Debit balances are amounts recoverable from customers. This amount results in a total claim of \$0.00136 per kWh which exceeded the preset disposition

threshold. As a result, Parry Sound Power is seeking disposition of this amount over a one year period.

Submission

Board staff has reviewed Parry Sound Power's Group 1 Deferral and Variance account balances and notes that the principal amounts to be disposed of as of December 31, 2010 reconcile with the amounts reported as part of the RRR. Board staff therefore submits that the amounts should be disposed of on a final basis. Board staff also submits that Parry Sound Power's proposal for a one-year disposition period for its Group 1 account balances is in accordance with the EDDVAR Report.

ACCOUNT 1521 – SPECIAL PURPOSE CHARGE (“SPC”)

Background

On April 9, 2010, the Board issued a letter and invoice to all licensed electricity distributors outlining the amount of each distributor's SPC assessment and the associated SPC.

On April 23, 2010, the Board issued a letter to all licensed electricity distributors authorizing Account 1521, Special Purpose Charge Assessment Variance Account. Any difference between the amount remitted to the Ministry of Finance for the SPC assessment and the amount recovered from customers was to be recorded in “Sub-account 2010 SPC Assessment Variance” of Account 1521.

The letter also indicated, in accordance with section 8 of the SPC regulation, electricity distributors are required to apply to the Board no later than April 15, 2012 for an order authorizing them to clear any debit or credit balance in the “Sub-account 2010 SPC Variance”. The Board expected that requests for disposition in “Sub-account 2010 SPC Variance” and “Sub-account 2010 SPC Assessment Carrying Charges” would be addressed as part of the proceedings for the 2012 rate year, except in cases where this approach would result in non-compliance with the timeline set out in section 8 of the SPC Regulation. In addition, the letter indicated in accordance with section 9 of the SPC Regulation, recovery of the SPC assessment is to be spread over a one-year period.

In its Manager's Summary, Parry Sound Power indicated a receivable balance of \$18,668.60 in this account as of December 31, 2010 and stated that the full recovery of the SPC assessment had not been completed as of that date. Therefore, Parry Sound Power proposed not to request disposition of this account in its 2012 IRM rate application.

In response to Board staff interrogatory #10, Parry Sound Power completed the following table:

SPC Assessment (Principal balance)	Amount recovered from customers in 2010	Carrying Charges for 2010	December 31, 2010 Year End Principal Balance	December 31, 2010 Year End Carrying Charges Balance	Amount recovered from customers in 2011	Carrying Charges for 2011	Forecasted December 31, 2011 Year End Principal Balance	Forecasted December 31, 2011 Carrying Charges Balance	Total for Disposition (Principal and Interest)
\$34,719.00	\$16,208.14	\$157.74	\$18,510.86	\$157.74	\$18,168.29	\$73.41	\$342.57	\$232.43	\$575.00

Parry Sound Power requested that the Board approve to record the \$575.00 in Account 1595 for disposition in a future rate application.

Submission

Board staff notes that the usual practice by the Board is to dispose of audited deferral and variance account balances. The balances in the table above provided by Parry Sound Power are not audited. Board staff notes that the residual balance in Account 1521 captures the difference between the assessed amount and the amounts recovered from ratepayers, which arise as a result of the volume used in deriving the assessment unit rate (i.e. \$0.0003725) and the actual volume consumed over the recovery period.

Board staff submits that despite the usual practice, the Board should authorize the disposition of Account 1521 as of December 31, 2010, including carrying charges, plus the amount recovered from customers in 2011, including carrying charges, because the account balance does not require a prudence review, and electricity distributors are required by regulation to apply for disposition of this account by April 30, 2012 in any event. It is Board staff's view that that there is no need to await the outcome of final audited results when these results may be available after April 30, 2012.

LRAM AND SSM CLAIM

Background

Parry Sound Power did not request any LRAM recoveries in its 2012 IRM application.

In response to Board staff interrogatory #11, Parry Sound Power indicated that it is in the process of getting Burman Energy to determine Parry Sound Power's recoveries for LRAM and SSM for the 2010 year. Parry Sound Power noted that as of the filing date of the interrogatory response, Parry Sound Power has not received the final OPA numbers. Parry Sound Power indicated that it will file under a separate cover a proposed LRAM and SSM rate rider when the OPA releases the data.

Submission

Section 2.7.10 Conservation and Demand Management ("CDM") Costs, under *Chapter 2 of the Filing Requirements for Transmission and Distribution Applications*, dated June 22, 2011, state that distributors intending to file an LRAM or SSM application for CDM Programs funded through distribution rates, or an LRAM application for CDM Programs funded by the OPA between 2005 and 2010, shall do so as part of their 2012 rate application filings, either cost-of-service or IRM. If a distributor does not file for the recovery of LRAM or SSM amounts in its 2012 rate application, it will forego the opportunity to recover LRAM or SSM for this legacy period of CDM activity.

Board staff submits that although at the time of filing Parry Sound Power did not have the final 2010 OPA results, Parry Sound Power could have used the 2009 published program evaluation results and preliminary results for 2010 to prepare its 2010 LRAM claim as part of its 2012 IRM application and updated this amount when it received the final 2010 evaluation results from the OPA. Consequently, Board staff submits that Parry Sound Power's proposal to file a stand-alone application should be denied.

All of which is respectfully submitted