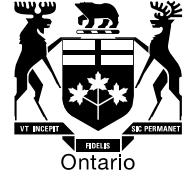


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BY EMAIL

January 30, 2012

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

Dear Ms. Walli:

**Re: Brant County Power Inc.
2012 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0154**

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 Brant County Power Inc. and to all other registered parties to this proceeding.

In addition please remind Brant County Power Inc. that its Reply Submission is due by February 13, 2012.

Yours truly,

Original Signed By

Daniel Kim
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Brant County Power Inc.

EB-2011-0154

January 30, 2012

**Board Staff Submission
Brant County Power Inc.
2012 IRM3 Rate Application
EB-2011-0154**

Introduction

Brant County Power Inc. (“Brant County Power”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”), received on October 28, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Brant County Power charges for electricity distribution, to be effective May 1, 2012. The Application is based on the Board’s guidelines for 3rd Generation Incentive Regulation Mechanism (“IRM”).

Brant County Power applied for the disposition of Account 1562 (deferred PILs). In a letter dated November 14, 2011, the Board found that based on its review of the evidence filed by Brant County Power in support of the disposition of Account 1562, the application was not consistent with the various decisions made in the course of the Combined PILs proceeding (EB-2008-0381). Accordingly, the Board determined that it would not hear the application for the disposition of Account 1562 as part of this proceeding but would consider it in a stand alone application which the Board expected Brant County Power to file by no later than April 1, 2012.

In its 2011 cost of service proceeding (EB-2010-0125), Brant County Power disposed of its Group 1 Deferral and Variance account balances as at December 31, 2010. Therefore there is no disposition required for Group 1 account balances in this application.

In the interrogatory phase, Board Staff identified certain discrepancies in the data entered in the application model by Brant County Power. In response to Board staff interrogatories which requested either confirmation that these discrepancies were errors or, an explanation supporting the validity of the original data filed with the application, Brant County Power confirmed that they were errors and provided the corrected data. Board Staff will make the necessary corrections to Brant County Power’s model at the time of the Board’s Decision and Order on the 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 Brant County Power.

Board staff makes submissions on the following matters:

- Account 1521 – Special Purpose Charge (“SPC”);
- Lost Revenue Adjustment Mechanism (“LRAM”) Claim; and
- Smart Meter Funding Adder (“SMFA”).

ACCOUNT 1521 – SPECIAL PURPOSE CHARGE (“SPC”)

Background

In its Manager’s Summary, Brant County Power indicated that it was still collecting the SPC and that the recovery would be completed after November 2011 consumption invoices. Brant County provided the current balance in Account 1521 but indicated that the amount would need to be updated.

In response to Board staff interrogatory #9c, Brant County Power provided the updated Account 1521 balance as of December 31, 2011, including carrying charges as of that date. The updated amount is a debit of \$6,194.

Submission

Board staff notes that the usual practice by the Board is to dispose of audited deferral and variance account balances. Board staff notes that the Board has approved the disposition of unaudited balances in Account 1521 in both the Horizon (EB-2011-0172) and Hydro One Brampton (EB-2011-0174) 2012 IRM proceedings.

Subject to the request below, Board staff submits that the Board should authorize the disposition of Account 1521 as of December 31, 2010, plus the amount recovered from customers in 2011, including carrying charges as of April 30, 2012.

Board staff requests that Brant County Power in their reply submission complete the table provided in Board staff interrogatory #9c, which would include the carrying charges to April 30, 2012, and also provide its calculation of the revised rate riders associated with the disposition of Account 1521.

LOST REVENUE ADJUSTMENT MECHANISM (“LRAM”) CLAIM

Background

The Board's *Guidelines for Electricity Distributor Conservation and Demand Management* (the “CDM Guidelines”) issued on March 28, 2008 outline the information that is required when filing an application for LRAM or SSM recovery.

Brant County Power sought to recover a total LRAM claim of \$21,561 over a one-year period. The lost revenues include the effect of CDM programs implemented in 2010. Brant County Power has requested approval of these savings persisting until April 30, 2012. In response to Board staff interrogatory #12a, Brant County Power noted that in its original LRAM claim it had omitted the LRAM associated with lost revenues from 2010 OPA programs in 2010. Brant County Power subsequently updated its LRAM amount to \$34,568 including carrying charges.

The Board's CDM Guidelines outlines the information that is required when filing an application for LRAM. In its decision on Horizon's application (EB-2009-0192) for LRAM recovery, the Board also noted that distributors should use the most current input assumptions available at the time of the third party review when calculating an LRAM amount.

Submission

Persisting impacts of 2010 programs

Brant County Power has requested the recovery of an LRAM amount that includes the persistence for 2010 programs from January 1, 2011 to April 30, 2012.

Board staff notes that Brant County Power's rates were last rebased in 2011.

Board staff notes that the CDM Guidelines state the following with respect to LRAM claims:

Lost revenues are only accruable until new rates (based on a new revenue requirement and load forecast) are set by the Board, as the savings would be assumed to be incorporated in the load forecast at that time¹.

Board staff also notes that in its Decision and Order on Hydro One Brampton's 2012 IRM application (EB-2011-0174), the Board disallowed LRAM claims for the rebasing year as well as persistence of prior year programs in and beyond the test year on the basis that these savings should have been incorporated into the applicant's load forecast at the time of rebasing.

In cases in which it was clear in the application or settlement agreement that an adjustment for CDM was not being incorporated into the load forecast specifically because of an expectation that an LRAM application would address the issue, and if this approach was accepted by the Board, then Board staff would agree that an LRAM application is appropriate. Brant County Power may want to highlight in its reply whether the issue of an LRAM application was addressed in their cost of service application.

In the absence of the above information, Board staff therefore does not support the recovery of the requested persisting lost revenues from 2010 CDM programs in 2011 or 2012 as these amounts should have been built into Brant County Power's last approved load forecast.

2010 programs

Board staff supports the approval of the 2010 lost revenues that took place in 2010 as these lost revenues took place during an IRM year and Brant County Power did not previously recover these amounts. Board staff notes that this is consistent with what the Board noted in its decisions on applications from Horizon (EB-2011-0172), Hydro One Brampton (EB-2011-0174), and Whitby Hydro (EB-2011-0206).

Board staff requests that Brant County Power provide an updated LRAM amount that only includes lost revenues from 2010 CDM programs in 2010, including carrying charges, and the associated rate riders.

¹ Section 5.2: Calculation of LRAM, Guidelines for Electricity Distributor Conservation and Demand Management (EB-2008-0037)

Smart Meter Funding Adder (“SMFA”)

Background

Brant County Power requested the continuation of its current approved SMFA of \$1.00 per month per metered customer, until April 30, 2013 since it has not yet finalized the deployment of smart meters.

In many decisions for electricity distributors whose rates were adjusted through the 3rd generation IRM for the 2011 test year, the Board established that the SMFA should cease as of April 30, 2012 on the basis that most utilities had completed, or nearly completed, smart meter deployment and that it was now time for applications for final review of incurred smart meter costs.

Submission

Board staff notes that, in Brant County Power’s 2011 cost of service (“COS”) decision the Board noted the following:

The Board notes that the Settlement Proposal includes the continuation of the Smart Meter Funding Adder (“SMFA”) of \$1.00 per metered customer per month. The Board further notes that the SMFA is a tool designed to provide advance funding and to mitigate the anticipated rate impact of smart meter costs when recovery of those costs is approved by the Board. Since the deployment of smart meters on a province-wide basis is now nearing completion, the Board expects distributors to file for a final prudence review at the earliest possible opportunity following the availability of audited costs. The Board expects Brant County to file in 2012 an application with the Board seeking final approval for smart meter related costs².

In response to Board staff interrogatory #10, Brant County Power noted that over 99% of its smart meter deployment was completed by the end of 2011 and that about 29

² Decision and Order EB-2010-0125, May 9, 2011, page 5.

smart meters remained to be deployed. The distributor also noted that it had implemented time-of-use billing as of September 1, 2011.

In response to Board staff interrogatory #10b, Brant County Power indicated that it expects to have the majority of smart meter costs audited by April 2012 and expects to seek disposition of the costs in its next rate filing (2014).

Board staff submits that Brant County Power's intention to apply for the final recovery of smart meter costs in a future rate filing is inconsistent with the Board's expectations documented in the 2011 cost of service decision quoted above.

Given the Board's expectations documented in the 2011 COS decision and order, the requirements documented in the recently filed Smart Meter Guidelines, and given the fact that Brant County Power has essentially completed its smart meter program, Board staff does not support Brant County Power's proposal to continue its current SMFA to April 30, 2013. Once Brant County Power's 2011 financial statements, including the smart meter accounts, are audited, Brant County Power should be in a position to file a stand-alone application seeking final disposition of its smart meter costs.

Board staff is of the view that establishing a sunset date for the SMFA of October 31, 2012 would be reasonable. This should allow sufficient time for Brant County Power to prepare and file an application in accordance with the recently issued Smart Meter Guidelines and model and for the Board to process such an application. The November 1, 2012 date has the benefit of coinciding with the semi-annual RPP price and threshold change. In Board staff's view, effecting the smart meter change to coincide with the regular RPP change should be practical from the distributor's perspective. Board staff notes that such an application should be filed by no later than May 31, 2012 to allow sufficient time for the application to be processed in time for a November 1, 2012 implementation. This treatment would also minimize rate volatility.

With respect to Brant County Power's proposal that the SMFA continue at the current level of \$1.00 per month per metered customer, Board staff does not oppose the distributor's proposal. Board staff requested, in interrogatory #11d, that Brant County Power fill out a version of the Smart Meter Model Version 2.17 to be able to ascertain the appropriateness of the SMFA. Brant County Power did so, with the model calculating an SMFA of \$0.87, once Board staff inserted the number of metered customers on sheet 9.

However, Board staff note that there are a number of issues and errors with the model filed by the utility:

- On sheet 2, Board staff observes that there are operating expenses documented from 2006 to 2009, even though the utility did not actually install smart meters until beginning in 2010. The operating expenses from 2006 to 2009 amount to over \$80K, nearly 1/3 of the total operating expenses of \$256K documented. The nature of these expenses is not documented.
- On sheet 3, Board staff submits that the utility has used incorrect cost of capital parameters. For example, capitalization is shown as 100% equity in 2006 and 2007, while the deemed capitalization used for rate setting was approved at 50% equity and 50% debt. Brant County Power also input an ROE of 9.9% from 2006 to 2010, although the approved ROE was 9.00% for that period of time for the utility. Other errors in short-term and long-term debts and capitalization are noted by Board staff as well.
- On sheet 3, Brant County Power did not input its Working Capital Allowance rate of 15% for all years.
- Also on sheet 3, Board staff observes that the utility has documented a CCA rate of 100% for all computer-related capital assets for all years. This is different than is observed for many other utilities, and Board staff is uncertain about the accuracy of the rate.
- On sheet 8, Board staff observes that Brant County Power has documented SMFA revenues back to January 2006, even though the SMFA only became effective on May 1, 2006. Brant County Power has also continued the SMFA revenues to December 2012, although the revenues should only be input to the end of the current rate year (i.e. April 30, 2012).

Board staff has made several adjustments and corrections to the model, and is attaching its version to this submission. This adjusted model calculates a SMFA of \$1.52 per metered customer per month going forward. However, Board staff has not been able to resolve some of the documented issues, such as the significant OM&A expenses prior to 2010 or the CCA rates. In the absence of clear data supporting either

the \$0.87 calculated by Brant County Power or the \$1.52 calculated in the attached revised model, the current SMFA of \$1.00 may be reasonable.

Finally, Board staff submits that Brant County Power should consider the issues raised above and the adjustments suggested by Board staff in the attached smart meter model at the time it files for the final recovery of smart meter costs.

All of which is respectfully submitted