



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Northern Ontario Wires Inc.

EB-2011-0188

January 30, 2012

**Board Staff Submission
Northern Ontario Wires Inc.
2012 IRM3 Rate Application
EB-2011-0188**

Introduction

Northern Ontario Wires Inc. (“NOW”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on October 28, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that NOW charges for electricity distribution, to be effective May 1, 2012. The Application is based on the 2012 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 NOW.

NOW calculated its shared tax savings which results in volumetric rate riders of \$0.0000 for all energy-based rate classes. NOW confirmed through interrogatories that it is proposing to record this balance in account 1595 for disposition in a future rate proceeding. Board staff supports this proposal.

In response to a Board staff interrogatory, NOW corrected its RTSR Workform to include loss factors and adjusted its RTS rates accordingly. Board staff confirms that the corrections made are appropriate.

Board staff makes detailed submissions on the following matters:

- Group 1 Deferral and Variance Accounts;
- Disposition of Account 1521;
- Smart Meter Funding Adder;
- Lost Revenue Adjustment Mechanism (“LRAM”) Recovery; and
- Disposition of Account 1562, Deferred Payments in Lieu of Taxes (“PILs”).

Group 1 Deferral and Variance Accounts

NOW’s application includes a request to dispose of a total Group 1 Deferral and Variance Account credit balance of \$340,112. This balance consists of the following:

- December 31, 2010 Group 1 deferral balances plus interest projected to April 30, 2012 of a credit of \$350,938
- Incremental Group 1 deferral balances from the period January 1, 2008 to December 31, 2008 plus interest projected to April 30, 2012 of a total credit of \$155,541
- The residual balance of Account 1590 of a debit of \$166,367

As described in the Manager's Summary at pages 2 -3 of the Application, NOW received approval in its 2009 cost of service proceeding for disposition of its Group 1 December 31, 2007 Principal balances with projected interest to April 30, 2009. In making its disposition adjustment to the Variance Schedules and the General Ledger as of May 1, 2009, NOW erroneously transferred to Account 1595 the audited principal balances as of December 31, 2008, with projected interest to April 30, 2009, as well as the residual balance of Account 1590. Disposition of Account 1590 is discussed below.

The rate riders established in NOW's 2009 cost of service proceeding were calculated to recover the December 31, 2007 balances, rather than the December 31, 2008 balances transferred. In its 2010 IRM, the Group 1 balances did not meet the threshold and no disposition was sought. In its 2011 cost of service proceeding, NOW applied for and received approval to dispose of its Group 1 balances as at December 31, 2009. At the time approval was sought, the 2008 balances discussed above had been transferred to Account 1595, and were not included in the subsequently-approved 2009 balances. NOW has received approval, and recovered its 2007 and 2009 Group 1 balances. The 2008 balances have not been included in the calculation of rate riders to recover Group 1 balances in either the 2009 or 2011 proceedings.

NOW is seeking approval to recover its 2008 Group 1 balances along with its 2010 Group 1 balances, with projected interest to April 30, 2012 for a total recovery of a credit of \$506,479. As discussed in NOW's Manager's Summary at page 3, these are audited balances, and in Board Staff's view NOW has provided appropriate reconciliations in its evidence.

With respect to the 2008 balances, Board staff is not of the view that there is an issue with retroactivity. Staff notes that the inadvertent transfer of the 2008 balances to account 1595 was an administrative error, not an accounting or billing error and that the 2008 balances have never been reviewed for disposition before this application.

Furthermore, the 2008 balances are a credit to customers.

Board staff supports the disposition of NOW's 2008 and 2010 Group 1 Balances, with applicable interest as proposed.

NOW has confirmed that it is proposing a one year recovery for all deferral and variance accounts disposed in this application. Staff has no concerns with this proposal.

Disposition of Account 1590

NOW is proposing to recover the residual debit balance in Account 1590 of \$166,367. Similar to the 2008 Group 1 Balances discussed above, this residual balance had been erroneously transferred to Account 1595 in 2009, along with balances approved for disposition in 2009. The rate riders approved in that proceeding were set to recover only the balances approved in that proceeding, not those that had been transferred in error.

NOW states that the Account 1590 residual balance consists of 2006 approved Group 1 balances, net of Interim Recoveries made between March 2002 and May 2006. The opening balance, including principal and interest is a debit of \$901,947, as shown in NOW's response to Board staff interrogatory #2. NOW states that rate riders were established in NOW's 2006 cost of service proceeding (EB-2005-0398) to recover this balance over a two year period.

NOW's response to Board staff interrogatory #2 provided some detail regarding the recovery of this balance and the variance between actual and approved recovery. The approved recovery period was from July 14, 2006 to April 30, 2008. However, NOW states that it made no recoveries against this account in 2006 and most of 2007, as the approved rate rider was not implemented in its billing system until October 2007. Upon discovery of this error in the fall of 2007, NOW performed a retroactive calculation to recover the amount under-billed for the period July 2006 to October 2007. Recoveries intended for the two year period were actually billed from November 2007 to May 2008. It is unclear to Board staff whether this was a correction to prior bills or whether NOW began charging a rate that was different from what was approved by the Board. If it is the latter, it would constitute a serious breach of a Board's Order.

Now's explanation also suggests that the residual balance applied for is possibly a true residual balance as intended for this account. This is supported by NOW's explanation below as to the makeup of the residual balance.

In its interrogatory response, NOW explained the variance in actual recovery as being the result of two factors: an overstatement of the kWh used to determine 2006 consumption, resulting in dilution of the rate rider; and a shift in the number of customers between GS <50kW and GS>50kW, changing the billing determinant from kWh to demand and contributing to lower recoveries.

However, the following “reasonability check” prepared by Board staff questions this explanation regarding the level of the residual balance. The rate riders as established in EB-2005-0398 for the 2006 and 2007 rate years, if properly applied, appear to be more than sufficient for full recovery of the approved balance based on actual consumption for those years:

**NOW Account 1590:
Potential Recovery Based on Actual Consumption and Approved Rate Riders**

| Rate Class | Rate Rider | 2006 Actual Vols | 2006 Recovery | 2007 Actual vols | 2007 recovery |
|-----------------------|------------|------------------|-------------------|------------------|-------------------|
| Residential (kWh) | 0.0047 | 42,481,116 | \$ 199,661 | 43,226,412 | \$ 203,164 |
| GS <50 (kWh) | 0.0031 | 22,211,396 | \$ 68,855 | 21,107,997 | \$ 65,435 |
| GS >50 (kW) | 1.1357 | 175,673 | \$ 199,512 | 172,737 | \$ 196,177 |
| USL (kWh) | 0.0131 | 121,104 | \$ 1,586 | 121,104 | \$ 1,586 |
| Street Light (kW) | 0.8394 | 5,014 | \$ 4,209 | 5,014 | \$ 4,209 |
| Total Recovery | | | \$ 473,824 | | \$ 470,572 |

| Description | Interest Rate | Principal | Carrying Charges | Total |
|-----------------------|---------------|------------|------------------|-------------------|
| Opening Balance | | \$ 783,834 | \$ 118,113 | \$ 901,947 |
| less: Recovery 2006 | | \$ 411,775 | \$ 62,049 | \$ 473,824 |
| add: Carrying Charges | 0.0448 | | \$ 25,892 | \$ 25,892 |
| Year End Balance | | \$ 372,059 | \$ 81,956 | \$ 454,015 |
| less: Recovery 2007 | | \$ 408,949 | \$ 61,623 | \$ 470,572 |
| add: Carrying Charges | 0.0487 | | \$ 8,161 | \$ 8,161 |
| Year End Balance | | -\$ 36,889 | \$ 28,495 | -\$ 8,395 |

Notes and Assumptions:

Rate riders as approved in EB-2005-0398 for 2 year recovery period

Actual consumption for 2006 and 2007 based on information provided in load forecast for 2009 rebasing in EB-2008-0238

Interest rates are annual averages of OEB quarterly interest rates for 2006 and 2007 rate years (May 1 implementation)

Annual carrying charges applied to average of opening and closing principal balances

Principal and carrying charges for recoveries are calculated based on proportions contained in opening balance

NOW's under-recovery of the balance in Account 1590 would appear to be the direct result of its failure to implement the approved rate riders and its miscalculation in attempting to rectify this error.

Further variances may result from the calculation of carrying charges for this account. The response to Board staff interrogatory #2 appears to indicate that carrying charges have been inconsistently applied to the balance in this account: total 2007 carrying charges are more than twice those applied in 2006, although the balance was drawing down in 2007, therefore carrying charges should have been decreasing.

Board staff notes that the Board may wish to consider that there is a lack of clarity on the record with respect to the status of account 1590 and its quantum. Given the lack of clarity, in the event that NOW is unable to provide satisfactory information for the Board to make a determination regarding disposition of the residual balance of this account in its reply submission, as will be noted below, Board staff submits that it would be more appropriate to delay disposition of the balance to NOW's next cost of service proceeding, scheduled for 2013, where it can be more fully examined.

In addition, the Board has clarified its expectations with regard to the information requirements for the maintenance and disposition of deferral accounts in its Frequently Asked Questions to the Accounting Procedures Handbook (August 2008):

"A distributor should maintain records to support all entries in account 1590 to facilitate disposition of the account balance in a Board proceeding or audit review in the future"¹.

In the current circumstances, which may have resulted from a series of errors and miscalculations, NOW should provide a more detailed and accurate reconciliation of the balance in the account, including the items listed below, in its reply in order to allow the Board to consider NOW's request, Board staff recommendation noted above or any other options the Board may wish to consider:

- Documentation to verify Board approval of the amount of the opening balance;
- Calculations used to derive the revised rate riders applied to recover the unbilled amounts;
- Actual rate riders resulting from these calculations as applied to customer bills;

¹ Accounting Procedures Handbook: Frequently Asked Questions, August 2008, A.6

- Actual consumption to which these rate riders were applied on a month-by-month basis over the period in question;
- Actual recovery amounts by month;
- Interest rates used to calculate carrying charges; and
- Actual carrying charges applied to the balance on a monthly basis.

Disposition of Account 1521

NOW's application contains a proposal to recover its forecast debit balance in Account 1521 of \$3,920.08. NOW received its invoice for \$48,801 on June 1, 2010 and began recovering this amount from customers in February 2011. The one-year recovery period will end with the January 2012 billing period. In response to interrogatories, NOW updated the balance in Account 1521 to include actual principal and carrying charges as at December 31, 2011, with forecast carrying charges to April 30, 2012.

Board staff notes that the usual practice by the Board is to dispose of audited deferral and variance account balances. The final balance proposed for disposition will be an unaudited balance. 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 clarification requested below, Board staff submits that the Board should authorize the disposition of Account 1521 as of December 31, 2010, adjusted by the amount recovered from customers in 2011 and 2012, including the appropriate carrying charges.

Board staff requests that NOW provide in its reply submission an update to this balance, reflecting actual amounts recovered in January 2012 and recalculated carrying charges to April 30, 2012. If actual information is not available at that time, an updated balance should be provided at the time that the final models for this proceeding are prepared.

Smart Meter Funding Adder

NOW is proposing to continue its current Smart Meter Funding Adder (SMFA) of \$2.50 per customer per month. In response to interrogatories, NOW indicated that it had experienced some delays in its smart meter deployment, with approximately \$7,000 in

capital costs required during January 2012. Final audited 2011 costs for smart meter recovery will be available in May 2012 and NOW anticipates filing an application for smart meter cost recovery shortly thereafter. Currently, the forecast balance for smart meter capital is approximately \$1.4 million.

Board staff notes that the SMFA was not intended to be compensatory (return on and of capital) on a cumulative basis over the term the SMFA is in effect.

NOW has not provided evidence to support its proposal to continue recovery of its Smart Meter Funding Adder beyond April 30, 2012. NOW provided evidence of its remaining smart meter activities in response to interrogatories, which shows that there is limited activity remaining to complete deployment. No smart meter deployment activity is forecast to occur beyond January 2012.

Board staff therefore does not support the continuation of the SMFA at its currently approved level. As NOW is scheduled to file a cost of service application in August 2012 for May 1, 2013 rates, it is expected that NOW will include in that application a request for a final prudence review of its smart meter costs. This would be expected to result in a Smart Meter Disposition Rider (SMDR) effective May 1, 2013. Therefore, in order to smooth the transition from the SMFA to the effective date of a SMDR for NOW, Board staff recommends the continuation of an SMFA of \$1.00 with a sunset date of April 30, 2013.

LRAM

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. In its decision on Horizon's application (EB-2009-0192) for LRAM recovery, the Board noted that distributors should use the most current input assumptions available at the time of the third party review when calculating a LRAM amount.

NOW originally sought to recover a total LRAM claim of \$62,021.03 over a one-year

period. In response to Board staff interrogatories, NOW updated its LRAM claim using the final 2010 OPA program results. NOW's updated LRAM claim, including carrying charges, is \$75,190.40. The lost revenues include the effect of CDM programs implemented from 2006-2010 for the 2009 to 2012 years. NOW has requested approval of these savings persisting until April 30, 2012.

Submission

Persisting impacts of 2006-2009 programs from 2009 to 2012

NOW has requested the recovery of an LRAM amount that includes lost revenues for 2009 CDM programs in 2009, as well as the persisting impacts from 2006, 2007, 2008, and 2009 programs from January 1, 2009 to April 30, 2012.

Board staff notes that NOW's rates were last rebased in 2009.

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 time².

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. NOW may want to highlight in its reply whether the issue of an LRAM application was addressed in their cost of service application.

² Section 5.2: Calculation of LRAM, Guidelines for Electricity Distributor Conservation and Demand Management (EB-2008-0037)

In the absence of the above information, Board staff does not support the recovery of the requested 2009 lost revenues from 2009 CDM programs or the persisting lost revenues from 2006, 2007, 2008, and 2009 CDM programs in 2009, 2010, 2011, or 2012 as these amounts should have been built into NOW's last approved load forecast. *2006, 2007, 2008 and 2010 programs*

Board staff notes that NOW has not collected the lost revenues associated with CDM programs delivered in 2006, 2007, 2008, and 2010. Staff notes that except for 2006, NOW was under IRM for these years. In 2006, NOW rebased on a historical test year basis and there was no opportunity for NOW to account for CDM activity in its rates. Board staff supports the approval of the 2006, 2007, 2008, and 2010 lost revenues, including the persisting lost revenues from 2006 programs in 2007 and 2008, and the persisting lost revenues from 2007 programs in 2008, as these lost revenues took place during IRM years and NOW did not have an opportunity to 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 NOW provide an updated LRAM amount that only includes lost revenues from 2006, 2007, 2008, and 2010 CDM programs in the years 2006, 2007, 2008 and 2010 and the subsequent rate riders. Board staff submits that it is premature to consider any lost revenue from 2010 programs persisting from January 1, 2011 to April 30, 2012.

Disposition of the Balance in Account 1562 Deferred PILs

The PILs evidence filed by NOW in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered from customers, SIMPIL³ Excel worksheets and continuity schedules that show the principal and interest amounts in the account 1562 deferred PILs balance. In pre-filed evidence, NOW applied to collect from customers a debit balance of \$58,985 consisting of a principal amount of \$44,571 plus related carrying charges of \$14,414 over a one year period.

³Spreadsheet implementation model for payments-in-lieu of taxes

Board staff submits that NOW has followed the regulatory guidance and the decisions issued by the Board in determining the amounts in its Account 1562 Deferred PILs evidence to be recovered from its customers.⁴ Board staff supports NOW's proposal as submitted.

All of which is respectfully submitted

⁴ Decisions in Combined Proceeding, EB-2008-0381 – August 12, 2011; June 24, 2011; December 23, 2010; December 18, 2009. Hydro One Brampton, EB-2011-0174, December 22, 2011. Whitby Hydro, EB-2011-0206, December 22, 2011. Staff Discussion Paper, August 20, 2008.