



EB-2011-0179

**IN THE MATTER OF** the *Ontario Energy Board Act*,  
1998, S.O. 1998, c.15 (Schedule B);

**AND IN THE MATTER OF** an application by Kitchener-  
Wilmot Hydro Inc. for an order or orders approving or  
fixing just and reasonable distribution rates and other  
charges, to be effective May 1, 2012.

**BEFORE:** Karen Taylor  
Presiding Member

Paula Conboy  
Member

## DECISION AND ORDER

### Introduction

Kitchener-Wilmot Hydro Inc. ("Kitchener-Wilmot"), a licensed distributor of electricity, filed an application with the Ontario Energy Board (the "Board") on October 28, 2011 under section 78 of the *Ontario Energy Board Act*, 1998, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that Kitchener-Wilmot charges for electricity distribution, to be effective May 1, 2012.

Kitchener-Wilmot is one of 77 electricity distributors in Ontario regulated by the Board. The *Report of the Board on 3<sup>rd</sup> Generation Incentive Regulation for Ontario's Electricity Distributors* (the "IR Report"), issued on July 14, 2008, establishes a three year plan term for 3<sup>rd</sup> generation incentive regulation mechanism ("IRM") (i.e., rebasing plus three years). In its October 27, 2010 letter regarding the development of a Renewed Regulatory Framework for Electricity ("RRFE"), the Board announced that it was

extending the 3<sup>rd</sup> generation IRM plan until such time as the RRFE policy initiatives have been substantially completed. As part of the plan, Kitchener-Wilmot is one of the electricity distributors that will have its rates adjusted for 2012 on the basis of the IRM process, which provides for a mechanistic and formulaic adjustment to distribution rates and charges between cost of service applications.

To streamline the process for the approval of distribution rates and charges for distributors, the Board issued its IR Report, its *Supplemental Report of the Board on 3<sup>rd</sup> Generation Incentive Regulation for Ontario's Electricity Distributors* on September 17, 2008 (the "Supplemental Report"), and its *Addendum to the Supplemental Report of the Board on 3<sup>rd</sup> Generation Incentive Regulation for Ontario's Electricity Distributors* on January 28, 2009 (collectively the "Reports"). Among other things, the Reports contain the relevant guidelines for 2012 rate adjustments for distributors applying for distribution rate adjustments pursuant to the IRM process. On June 22, 2011 the Board issued an update to Chapter 3 of the Board's *Filing Requirements for Transmission and Distribution Applications* (the "Filing Requirements"), which outlines the Filing Requirements for IRM applications based on the policies in the Reports.

Notice of Kitchener-Wilmot's rate application was given through newspaper publication in Kitchener-Wilmot's service area advising interested parties where the rate application could be viewed and advising how they could intervene in the proceeding or comment on the application. No letters of comment were received. The Notice of Application indicated that intervenors would be eligible for cost awards with respect to Kitchener-Wilmot's request for lost revenue adjustment mechanism ("LRAM") recoveries. The Vulnerable Energy Consumers Coalition ("VECC") applied for and was granted intervenor status in this proceeding. The Board granted VECC eligibility for cost awards in regards to Kitchener-Wilmot's request for LRAM recoveries. Board staff also participated in the proceeding. The Board proceeded by way of a written hearing.

While the Board has considered the entire record in this proceeding, it has made reference only to such evidence as is necessary to provide context to its findings. The following issues are addressed in this Decision and Order:

- Price Cap Index Adjustment;
- Rural or Remote Electricity Rate Protection;
- Shared Tax Savings Adjustments;
- Retail Transmission Service Rates;

- Review and Disposition of Group 1 Deferral and Variance Account Balances;
- Review and Disposition of Account 1521: Special Purpose Charge;
- Review and Disposition of Account 1562: Deferred Payments in Lieu of Taxes;
- Review and Disposition of Lost Revenue Adjustment Mechanism; and
- Smart Meter Funding Adder (“SMFA”).

### **Price Cap Index Adjustment**

As outlined in the Reports, distribution rates under the 3<sup>rd</sup> Generation IRM are to be adjusted by a price escalator, less a productivity factor (X-factor) of 0.72% and a stretch factor.

On March 13, 2012, the Board announced a price escalator of 2.0% for those distributors under IRM that have a rate year commencing May 1, 2012.

The stretch factors are assigned to distributors based on the results of two benchmarking evaluations to divide the Ontario industry into three efficiency cohorts. In its letter to Licensed Electricity Distributors dated December 1, 2011 the Board assigned to Kitchener-Wilmot efficiency cohort 1 and a cohort specific stretch factor of 0.2%.

On that basis, the resulting price cap index adjustment is 1.08%. The price cap index adjustment applies to distribution rates (fixed and variable charges) uniformly across customer classes that are not eligible for Rural or Remote Electricity Rate Protection. The price cap index adjustment will not apply to the following components of delivery rates:

- Rate Riders;
- Rate Adders;
- Low Voltage Service Charges;
- Retail Transmission Service Rates;
- Wholesale Market Service Rate;
- Rural Rate Protection Charge;
- Standard Supply service – Administrative Charge;
- Transformation and Primary Metering Allowances;
- Loss Factors;
- Specific Service Charges;

- MicroFIT Service Charges; and
- Retail Service Charges.

### **Rural or Remote Electricity Rate Protection**

On December 21, 2011, the Board issued a Decision with Reasons and Rate Order (EB-2011-0405) establishing the Rural or Remote Electricity Rate Protection (“RRRP”) benefit and charge for 2012. The Board amended the RRRP charge to be collected by the Independent Electricity System Operator from the current \$0.0013 per kWh to \$0.0011 per kWh effective May 1, 2012. The draft Tariff of Rates and Charges flowing from this Decision and Order should reflect the new RRRP charge.

### **Shared Tax Savings Adjustments**

In its Supplemental Report, the Board determined that a 50/50 sharing of the impact of currently known legislated tax changes, as applied to the tax level reflected in the Board-approved base rates for a distributor, is appropriate.

The calculated annual tax reduction over the IRM plan term will be allocated to customer rate classes on the basis of the Board-approved base-year distribution revenue. These amounts will be refunded to customers each year of the plan term, over a 12-month period, through a volumetric rate rider using annualized consumption by customer class underlying the Board-approved base rates.

Kitchener-Wilmot’s application identified a total tax savings of \$1,077,762 resulting in a shared amount of \$538,881 to be refunded to rate payers.

In the interrogatory phase of this proceeding, Board staff noted that it was unable to verify the figure entered for the line items “Tax Impact” and subsequently “Grossed-up Tax Amount” in the Tax Savings Workform with Kitchener-Wilmot’s 2010 Revenue Requirement Workform (“RRWF”). Kitchener-Wilmot agreed with Board staff and requested Board staff to make the necessary corrections to the workform.

The Board notes that the revisions made to the Tax Savings Workform results in a change to the total tax savings to \$873,806, resulting in a shared amount of \$436,903.

The Board approves shared tax savings in the amount of a credit of \$436,903, to be disposed over a one year period, from May 1, 2012 to April 30, 2013.

### **Retail Transmission Service Rates**

Electricity distributors are charged the Ontario Uniform Transmission Rates (“UTRs”) at the wholesale level and subsequently pass these charges on to their distribution customers through the Retail Transmission Service Rates (“RTSRs”). Variance accounts are used to capture timing differences and differences in the rate that a distributor pays for wholesale transmission service compared to the retail rate that the distributor is authorized to charge when billing its customers (i.e. variance Accounts 1584 and 1586).

On June 22, 2011 the Board issued revision 3.0 of the *Guideline G-2008-0001 - Electricity Distribution Retail Transmission Service Rates* (the “RTSR Guideline”). The RTSR Guideline outlines the information that the Board requires electricity distributors to file to adjust their RTSRs for 2012. The RTSR Guideline requires electricity distributors to adjust their RTSRs based on a comparison of historical transmission costs adjusted for the new UTR levels and the revenues generated under existing RTSRs. The objective of resetting the rates is to minimize the prospective balances in Accounts 1584 and 1586. In order to assist electricity distributors in the calculation of the distributors’ specific RTSRs, Board staff provided a filing module.

On December 20, 2011 the Board issued its Rate Order for Hydro One Transmission (EB-2011-0268) which adjusted the UTRs effective January 1, 2012, as shown in the following table:

#### **2012 Uniform Transmission Rates**

Network Service Rate	\$3.57 per kW
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.80 per kW
Transformation Connection Service Rate	\$1.86 per kW

In its response to Board staff interrogatories, Kitchener-Wilmot provided evidence which supported the data entered in the RTSR Workform.

The Board finds that the 2012 UTRs are to be incorporated into the filing module.

## Review and Disposition of Group 1 Deferral and Variance Account Balances

The *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative* (the "EDDVAR Report") provides that, during the IRM plan term, the distributor's Group 1 account balances will be reviewed and disposed if the preset disposition threshold of \$0.001 per kWh (debit or credit) is exceeded. The onus is on the distributor to justify why any account balance in excess of the threshold should not be disposed.

Kitchener-Wilmot's 2010 actual year-end balance for Group 1 Accounts including interest projected to April 30, 2012 is a credit of \$261,585. This amount results in a total claim of \$0.00014 per kWh, which does not exceed the preset disposition threshold, and as such, Kitchener-Wilmot did not request disposition of these accounts.

In its submission, Board staff noted that the principal balances as of December 31, 2010 reconcile with the balances reported as part of the *Reporting and Record-keeping Requirements* except for the misclassification of interest for Account 1588. In its application, Kitchener-Wilmot noted that "the aggregate balance of RSVA Power is reported as (a debit of) \$3,533,792. However, through RRR reporting, the balance of RSVA – Power – Global Adjustment was understated by the interest amount attributed to this sub-account of \$125,859. By virtue of this understatement, the RSVA Power *without* Global Adjustment would therefore have been over stated by the same interest amount<sup>1</sup>."

Board staff noted that this error does not appear to impact the outcome of the threshold test. In its interrogatory responses, Kitchener-Wilmot confirmed that it had conducted an analysis and has verified that the balances of both the RSVA Power and the RSVA – Power – Global Adjustment Sub-Account are correct on an individual basis<sup>2</sup>. Board staff had no concerns with this correction and accepted that the corrected balance will be disposed in Kitchener-Wilmot's next rate application.

The Board notes that the EDDVAR disposition threshold of \$0.001/kWh has not been exceeded. Disposition of the Group 1 Deferral and Variance accounts is not required at this time. No determination of the Board is required.

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<sup>1</sup> EB-2011-0179, Manager's Summary, Page 6

<sup>2</sup> EB-2011-0179, Interrogatory Responses, #4(e)

**Review and Disposition of Account 1521: Special Purpose Charge**

The Board authorized Account 1521, Special Purpose Charge Assessment (“SPC”) Variance Account in accordance with Section 8 of Ontario Regulation 66/10 (Assessments for Ministry of Energy and Infrastructure Conservation and Renewable Energy Program Costs) (the “SPC Regulation”). Accordingly, any difference between (a) the amount remitted to the Minister of Finance for the distributor’s SPC assessment and (b) the amounts recovered from customers on account of the assessment were to be recorded in “Sub-account 2010 SPC Assessment Variance” of Account 1521.

In accordance with Section 8 of the SPC Regulation, distributors are required to apply no later than April 15, 2012 for an order authorizing the disposition of any residual balance in sub-account 2010 SPC Assessment Variance. The Filing Requirements state the Board’s expectation that requests for disposition of this account balance would be heard as part of the proceedings to set rates for the 2012 year.

Kitchener-Wilmot provided a reconciliation of Account 1521 as requested by Board staff during the interrogatory phase. Based on Kitchener-Wilmot’s reconciliation, Board staff supported Kitchener-Wilmot’s request to dispose of the updated balance in this account of a debit of \$16,967.28 over one year.

Board staff submitted that despite the usual practice, the Board should authorize the disposition of Account 1521 as of December 31, 2010, plus the amounts recovered from customers in 2011, including interest, because the account balance does not require a prudence review, and electricity distributors are required by regulation to apply for disposition of this account. Board staff submitted that the \$16,967.28 debit balance in Account 1521 should be approved for disposition over a one year period.

In its reply submission, Kitchener-Wilmot agreed with Board staff.

The Board approves the disposition on a final basis, of a debit balance in Account 1521 of \$16,967.28, representing principal and interest to April 30, 2012, over a one year period, May 1, 2012 to April 30, 2013. The Board directs Kitchener-Wilmot to close Account 1521 effective May 1, 2012.

For accounting and reporting purposes, the balance of Account 1521 shall be transferred to the applicable principal and interest carrying charge sub-accounts of Account 1595 pursuant to the requirements specified in Article 220, Account

Descriptions, of the *Accounting Procedures Handbook for Electricity Distributors*. The date of the journal entry to transfer the approved account balances to the sub-accounts of Account 1595 is the date on which disposition of the balances are effective in rates, which generally is the start of the rate year (e.g. May 1), and this entry should be completed on a timely basis to ensure that these adjustments are included in the June 30, 2012 (3<sup>rd</sup> Quarter) RRR data reported.

### **Review and Disposition of Account 1562: Deferred Payments in Lieu of Taxes**

In 2001, the Board approved a regulatory payments in lieu of taxes proxy approach for rate applications coupled with a true-up mechanism filed under the RRR to account for changes in tax legislation and rules and to true-up between certain proxy amounts used to set rates and the actual amount of taxes paid. The variances resulting from the true-up were tracked in Account 1562 for the period 2001 through April 30, 2006.

On November 28, 2008, pursuant to sections 78, 19 (4) and 21 (5) of the *Ontario Energy Board Act, 1998*, the Board commenced a Combined Proceeding (EB-2008-0381) on its own motion to determine the accuracy of the final account balances with respect to Account 1562 Deferred Payments in Lieu of Taxes (“Deferred PILs”) (for the period October 1, 2001 to April 30, 2006) for certain electricity distributors that filed 2008 and 2009 distribution rate applications.

The Notice in the Combined Proceeding included a statement of the Board's expectation that the decision resulting from the Combined Proceeding would be used to determine the final account balances with respect to Account 1562 Deferred PILs for the remaining distributors. In its decision and order, the Board stated that: “Each remaining distributor will be expected to apply for final disposition of account 1562 with its next general rates application (either IRM or cost of service).”<sup>3</sup>

Kitchener-Wilmot applied to dispose of a credit balance of \$174,184 consisting of a principal credit amount of \$360,666 plus related carrying charges to April 30, 2012 of a debit of \$186,482 over a one year period.

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<sup>3</sup> EB-2008-0381 Account 1562 Deferred PILs Combined Proceeding, Decision and Order, p. 28

### Excess Interest True-up Calculations

In response to Board staff interrogatories, Kitchener-Wilmot disclosed the components of its interest expense for the period 2001 to 2005.

In its original application, the 2003, 2004 and 2005 SIMPIL models used interest deducted on the tax returns and actual interest paid to calculate the excess amount causing a zero true-up since these numbers are equal. Board staff asked in interrogatories why the 2003, 2004 and 2005 SIMPIL models used 'actual interest paid' and not 'maximum deemed interest' in the calculation of excess claw-back as reflected in the combined proceeding. Board staff also asked if Kitchener-Wilmot should be subject to the settlement of Issue 13 related to the excess interest claw-back in the combined proceeding. Kitchener-Wilmot responded:

“KWHI is unsure of how and when the model was changed. Yes, upon changing the model to reflect the discussion above, KWHI is subject to the excess interest claw-back.”

In its response, Kitchener-Wilmot revised the 2003 and 2004 SIMPIL models TAXCALC worksheet to 'total deemed interest' to trigger a true-up of the excess interest claw-back on TAXCALC worksheet. However, the 2005 SIMPIL model was not updated to reflect the total deemed interest and the calculation of the excess interest claw-back.

Board staff submitted that Kitchener-Wilmot should change the 2005 SIMPIL TAXCALC sheet "actual interest paid" of \$5,578,968 to "total deemed interest" of \$5,387,350 to trigger a true-up of the variance caused by excess interest expense.

Board staff submitted that Kitchener-Wilmot should file the revised 2005 SIMPIL model, PILs continuity schedule and EDDVAR continuity schedule in Excel format and also file the updated 2003 and 2004 SIMPIL models with corrected interest claw-back adjustments from Board Staff Interrogatories Appendix C and D in Excel format.

### Components of Interest Expense

In its submission, Board staff noted that Kitchener-Wilmot also included interest on customer security deposits, IESO prudentials and on PILs returns.

The Board decided in EB-2011-0174 that Hydro One Brampton's interest expense used to calculate the interest claw-back variance should not include interest on customer deposits.<sup>4</sup> Board staff submitted that to the best of its knowledge, the Board has not yet decided if interest on IESO prudentials and on PILs returns should be included in interest expense for the SIMPIL claw-back variance calculations.

Board staff submitted that Kitchener-Wilmot should clarify if the interest on IESO prudentials is a stand-by fee for providing, but not drawing on, a line of credit. If Kitchener-Wilmot confirmed that the IESO has drawn down the line of credit because of non-payment of commodity invoices, then Board staff submitted that this interest expense relates to debt and should be included in the interest claw-back variance calculations.

Board staff submitted that Kitchener-Wilmot should clarify if the interest on PILs returns is penalty interest because Kitchener-Wilmot paid PILs tax instalments that were insufficient. If Kitchener-Wilmot confirmed that the amount is for penalty interest related to insufficient tax instalments, then Board staff submitted that this penalty interest should be excluded from the interest claw-back variance calculations.

Board staff also submitted that interest on customer deposits should be deducted from total interest expense per the financial statements to be consistent with the Board's decision for Hydro One Brampton. Staff also submitted that Kitchener-Wilmot should change the amount of interest expense used in the 2001-2005 SIMPIL model interest claw-back penalty calculations to reflect Board staff's submissions, and update the PILs 1562 continuity schedule and balance to be refunded to customers. Board staff noted that Kitchener-Wilmot should file a schedule of revised interest expense identifying the components.

In its reply submission, Kitchener-Wilmot updated the interest table as requested by Board staff. Kitchener-Wilmot agreed with Board staff that interest on customer deposits should be excluded from the excess interest claw-back calculation. It confirmed that the interest charges on IESO prudentials is a stand-by fee charged by the bank and that it is not interest expense related to drawing down on a line of credit.

Kitchener-Wilmot agreed with Board staff that it should then be excluded from the excess interest claw-back calculation.

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<sup>4</sup> EB-2011-0174, December 22, 2011, pg. 9-10

Kitchener-Wilmot also confirmed that the interest on PILS returns is penalty interest from making insufficient tax instalments and agreed that it should then also be excluded from the excess interest claw-back calculation.

Kitchener-Wilmot subsequently revised its models to reflect the changes above and to include its interpretation of the Board staff submissions. Kitchener-Wilmot noted that as a result of the changes to the models through this process, the balance of Account 1562 has now been adjusted to a credit to customers of \$184,145. This balance is comprised of a credit of \$368,869 plus debit interest of \$184,724. Since the Board had not yet made its findings on what constitutes interest for the true-up calculations, Kitchener-Wilmot and Board staff were responding to the evidence as it existed in the case before the record was closed.

The Board finds that interest for the purposes of the disposition of Account 1562 is comprised of interest on long term debt, interest on short term debt, and interest on IESO prudentials, as this latter amount is a stand-by fee for providing, but not drawing on a line of credit. This finding is consistent with the Board's determination in Hydro One Brampton (EB-2011-0174) and Burlington (EB-2011-0155). Kitchener-Wilmot is directed to re-file its calculation of the balance in Account 1562 to be disposed. The Board directs Kitchener-Wilmot to file active Excel models in support of its calculations in order to facilitate the review of the revised evidence. The Board approves a one-year disposition period, May 1, 2012 to April 30, 2013.

For accounting and reporting purposes, the balance of Account 1562 shall be transferred to the applicable principal and interest carrying charge sub-accounts of Account 1595 pursuant to the requirements specified in Article 220, Account Descriptions, of the Accounting Procedures Handbook for Electricity Distributors. The date of the journal entry to transfer the approved account balances to the sub-accounts of Account 1595 is the date on which disposition of the balances is effective in rates, which generally is the start of the rate year (e.g. May 1), and this entry should be completed on a timely basis to ensure that these adjustments are included in the June 30, 2012 (3<sup>rd</sup> Quarter) RRR data reported.

## Review and Disposition of Lost Revenue Adjustment Mechanism

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.

Kitchener-Wilmot sought to recover a total LRAM claim of \$692,816.62 including carrying charges, over a two-year period (revised from \$569,663.88 for OPA's 2010 final program results). Kitchener-Wilmot requested the recovery of lost revenues that took place in 2009, 2010, and 2011. The LRAM amount for 2009 includes lost revenues from 2009 CDM programs. The LRAM amount for 2010 includes persisting lost revenues from 2006-2009 CDM programs as well as new lost revenues from 2010 CDM programs. The LRAM amount for 2011 is comprised of persisting lost revenues from 2006-2010 CDM programs.

### 2010 Programs and Persisting Impacts of 2006-2010 Programs

Board staff noted that Kitchener-Wilmot's rates were last rebased in 2010 and included in its load forecast was a 0.53% reduction for forecasted OPA CDM programs.

Board staff noted 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 time<sup>5</sup>.

Board staff submitted that Kitchener-Wilmot may want to highlight in its reply whether the issue of an LRAM application was addressed in its 2010 cost of service application.

In the absence of the above information, Board staff did not support the recovery of the requested persisting lost revenues from 2006-2009 CDM programs in 2010, the lost revenues from 2010 CDM programs, or the lost revenues from 2006-2010 CDM programs persisting from January 1, 2011 to December 31, 2011 as these amounts should have been built into Kitchener-Wilmot's last approved load forecast.

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<sup>5</sup> Section 5.2: Calculation of LRAM, Guidelines for Electricity Distributor Conservation and Demand Management (EB-2008-0037)

VECC submitted that in accordance with the Board's guidelines and recent decisions, energy savings from Kitchener-Wilmot's CDM programs implemented in 2009 and 2010 are not accruable in 2010 and 2011 as savings should have been incorporated in the 2010 load forecast at the time of rebasing.

### 2009 programs

In its submission, Board staff noted that Kitchener-Wilmot has not collected all lost revenues associated with CDM programs delivered in 2009, a year where Kitchener-Wilmot was under IRM. Board staff supported the approval of the 2009 lost revenues (\$93,397.88, not including carrying charges) requested by Kitchener-Wilmot as these lost revenues took place during IRM years and Kitchener-Wilmot did not have an opportunity to recover these amounts.

Board staff requested Kitchener-Wilmot to provide an updated LRAM amount that reflects lost revenues for 2009 CDM programs in the year 2009, the associated carrying charges and rate riders.

In its submission, VECC supported the approval of the lost revenue in 2009 for CDM programs implemented in 2009 as these energy savings occurred prior to rebasing, while Kitchener-Wilmot was under IRM, and these savings have not been claimed.

In its reply submission, Kitchener-Wilmot recalculated the LRAM claim using only the lost revenues for 2009 CDM programs. Kitchener-Wilmot noted that the resulting total claim based on this methodology is now \$96,279 (\$93,398 + \$2,882 in carrying charges). Kitchener-Wilmot also noted that if the Board were to decide that this is the calculation that Kitchener-Wilmot should use for its LRAM rate rider, Kitchener-Wilmot would revise its request for the LRAM rate rider to last for 12 months only to April 30, 2013, rather than for a 24 month period as originally requested.

Kitchener-Wilmot noted that while it estimated what the effects of CDM were, the estimates were not included in its previous load forecast *per se*. Kitchener-Wilmot applied for and received LRAM in its 2010 cost of service proceeding (EB-2009-0267) and did not "build in" a future-based CDM factor into its load forecast, expecting to recover its lost revenues through a future LRAM application to the Board<sup>6</sup>.

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<sup>6</sup> EB-2011-0179, Reply Submission, Page 8

Kitchener-Wilmot stated that in the supporting regression analysis to the load forecast, no variables were identified specific to CDM. It states that in developing its load forecast, Kitchener-Wilmot could not use the previous three years of data (i.e. 2006-2008) for the equation. This was because the true effects of CDM could not be calculated accurately due to two major factors. Kitchener-Wilmot states that one factor was a weak economy. The City of Kitchener has long been a manufacturing hub but the weak economy and the shift to a service economy has resulted in significant plant closures in Kitchener-Wilmot's service area. In addition to the swings caused by the first factor, third tranche CDM activities began in 2004 and continued through 2007. When Kitchener-Wilmot included the consumption data for 2006-2008 years in the model, the R2 value became unreliable, so it was removed.

Kitchener-Wilmot submitted therefore that there was no reliable predictive variable for CDM in the 2009-2010 load forecast, particularly as far as OPA programs are concerned. The OPA's programs began in 2007 but many programs took much of 2007 to be implemented. This leaves one full year of data from the OPA that could be used as a proxy for CDM savings. Kitchener-Wilmot submitted that one year of data is not enough data to base a load forecast on and that it could not possibly have developed predictive results for a reliable load forecast.

Consistent with the 2008 CDM Guidelines, the Board approves an LRAM claim of \$96,279 representing lost revenue attributable to 2009 programs in 2009 plus carrying charges to April 30, 2012. The Board notes that Kitchener-Wilmot was under IRM in 2009 and has not otherwise been compensated for lost revenue arising from 2009 programs in 2009. The Board will not approve LRAM arising from: (i) persistence from 2006 to 2009 programs in 2010; (ii) 2010 programs implemented in 2010; and (iii) persistence from 2006 to 2010 programs in 2011, as these claims are inconsistent with the 2008 CDM Guidelines, which state that lost revenues are only accruable until new rates (based on a new revenue requirement and load forecast) as set by the Board, as the savings would be assumed to be incorporated in the load forecast at that time. Kitchener-Wilmot has not provided sufficient evidence to suggest that it is appropriate to deviate from the 2008 CDM Guidelines. The Board approves a one year disposition period, May 1, 2012 to April 30, 2013.

**Smart Meter Funding Adder (“SMFA”)**

Kitchener-Wilmot populated the updated Smart Meter Model with audited amounts to December 31, 2010 and forecasted amounts for 2011 and 2012. Kitchener-Wilmot requested that the Board approve a revised SMFA of \$1.74 per metered customer per month (lower than its current \$2.00 SMFA) on an interim basis only until Kitchener-Wilmot’s stand-alone Smart Meter Application review is completed and final rates are established and approved by the Board.

As of December 31, 2010, Kitchener-Wilmot’s total audited capital costs for its smart meter program reached 90.2% of its total forecast costs with 96% of its total smart meters installed<sup>7</sup>. As such, Kitchener-Wilmot intends to file a stand-alone application for the disposition and revenue requirement rate riders shortly, with an expected implementation of May 1, 2012.<sup>8</sup>

Board staff submitted that in order to avoid rate fluctuations and customer confusion the Board may wish to consider continuation of the SMFA until it is replaced by an SMDR and SMIRR. Board staff submitted that the SMFA, if approved by the Board, could be continued on a permanent basis, as opposed to the interim basis requested by Kitchener-Wilmot. Although Board staff notes that the SMFA is, by its very nature, an interim charge until a final review has taken place there is no significance as to whether the continuation of a SMFA is on an interim or permanent basis.

Board staff submitted that a termination date of October 31, 2012 would be reasonable. By that time, Kitchener-Wilmot should have completed its smart meter program. Further, this will allow sufficient time for the utility to prepare and file an application in accordance with the recently issued Guideline and model and for the Board to process such an application.

In its reply submission, Kitchener-Wilmot agreed with Board staff in all respects.

The Board will not approve the continuation of the SMFA beyond the current expiry of April 30, 2012. The Board is of the view that the percentage of total smart meter costs audited is not the relevant metric to consider with respect to whether it is appropriate to extend a SMFA. Rather, the relevant metric is the date at which smart meter

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<sup>7</sup> EB-2011-0179, Application, Page 5

<sup>8</sup> *Ibid*

deployment was or will be substantially completed. In this case, smart meter deployment was 96% complete on December 31, 2010. The SMFA was designed to fund the prospective deployment of smart meters with minimum functionality. The Board believes that the current expiry date of the SMFA best aligns the interests of ratepayers and the utility, by balancing potential rate volatility with the need to ensure that monies collected from ratepayers serve the intended purpose.

## **IMPLEMENTATION**

The Board has made findings in this Decision which change the 2012 distribution rates from those proposed by Kitchener-Wilmot.

The Board expects Kitchener-Wilmot to file a draft Rate Order, including all relevant calculations showing the impact of this Decision on Kitchener-Wilmot's determination of the final rates. Supporting documentation shall include, but not be limited to, filing completed versions of the 2012 IRM Rate Generator model, updated SIMPIL models and continuity tables to support the claim for disposition of Account 1562 and LRAM calculations showing the derivation of the final rate riders to recover the approved LRAM amount.

A Rate Order will be issued after the steps set out below are completed.

### **THE BOARD ORDERS THAT:**

1. Kitchener-Wilmot shall file with the Board, and shall also forward to intervenors, a draft Rate Order that includes revised models in Microsoft Excel format and a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision and Order within 7 days of the issuance of this Decision and Order.
2. Board staff and intervenors shall file any comments on the draft Rate Order including the revised models and proposed rates with the Board and forward to Kitchener-Wilmot within 7 days of the date of filing of the draft Rate Order.
3. Kitchener-Wilmot shall file with the Board and forward to intervenors responses to any comments on its draft Rate Order including the revised models and proposed rates within 4 days of the date of receipt of intervenor comments.

## Cost Awards

The Board will issue a separate decision on cost awards once the following steps are completed:

1. VECC shall submit its cost claims no later than **7 days** from the date of issuance of the final Rate Order.
2. Kitchener-Wilmot shall file with the Board and forward to VECC any objections to the claimed costs within **21 days** from the date of issuance of the final Rate Order.
3. VECC shall file with the Board and forward to Kitchener-Wilmot any responses to any objections for cost claims within **28 days** from the date of issuance of the final Rate Order.
4. Kitchener-Wilmot shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

All filings to the Board must quote file number **EB-2011-0179**, be made through the Board's web portal at, [www.errr.ontarioenergyboard.ca](http://www.errr.ontarioenergyboard.ca) and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must clearly state the sender's name, postal address and telephone number, fax number and e-mail address. Parties must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at [www.ontarioenergyboard.ca](http://www.ontarioenergyboard.ca). If the web portal is not available parties may email their document to the address below. Those who do not have internet access are required to submit all filings on a CD in PDF format, along with two paper copies. Those who do not have computer access are required to file 2 paper copies.

**DATED** at Toronto, April 4, 2012  
**ONTARIO ENERGY BOARD**

*Original signed by*

Kirsten Walli  
Board Secretary