



EB-2011-0176

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 Innisfil
Hydro Distribution Systems Limited 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

Innisfil Hydro Distribution Systems Limited (“Innisfil Hydro”), a licensed distributor of electricity, filed an application with the Ontario Energy Board (the “Board”) on November 14, 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 Innisfil Hydro charges for electricity distribution, to be effective May 1, 2012.

Innisfil Hydro is one of 77 electricity distributors in Ontario regulated by the Board. The *Report of the Board on 3rd Generation Incentive Regulation for Ontario’s Electricity Distributors* (the “IR Report”), issued on July 14, 2008, establishes a three year plan term for 3rd 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 IRM plan until such time as the RRFE policy initiatives have been substantially completed. As part of the plan, Innisfil Hydro 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 3rd 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 3rd 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 application filing requirements for IRM applications based on the policies in the Reports.

Notice of Innisfil Hydro's rate application was given through newspaper publication in Innisfil Hydro'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 Vulnerable Energy Consumers Coalition ("VECC") applied and was granted intervenor status in this proceeding. The Board granted VECC eligibility for cost awards in regards to Innisfil Hydro's request for lost revenue adjustment mechanism ("LRAM") recovery. 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 Charge;
- 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 Lost Revenue Adjustment Mechanism; and
- Review and Disposition of Account 1562: Deferred Payments In Lieu of Taxes.

Price Cap Index Adjustment

As outlined in the Reports, distribution rates under the 3rd 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 Innisfil Hydro to efficiency cohort 2 and a cohort specific stretch factor of 0.4%.

On that basis, the resulting price cap index adjustment is 0.88%. 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 or Remote 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 Charge

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 will 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.

Innisfil Hydro’s application originally included a tax sharing credit of \$85,675. In response to Board staff interrogatory #2, Innisfil Hydro corrected the taxable capital used to calculate the savings. The resulting tax sharing amount is a credit of \$106,791.

The Board approves the disposition of the shared tax savings of \$106,791 over a one-year period (i.e. from May 1, 2012 to April 30, 2013) and the associated rate riders for all customer rate classes.

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

The Board finds that these 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 Report 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.

Innisfil Hydro’s 2010 actual year-end total balance for Group 1 Accounts including interest projected to April 30, 2012 is a credit of \$708,535. This amount results in a total credit claim of \$0.00309 per kWh, which exceeds the preset disposition threshold. Innisfil Hydro requested a two-year disposition period of its Group 1 Accounts due to the

timing of its future smart meter cost recovery application and the disposition of Account 1562 which will assist with rate mitigation.

In response to Board staff interrogatory #15, Innisfil Hydro provided the total bill impacts by rate class when using a two-year disposition period for Group 1 Accounts and Account 1562 and when using a one-year disposition period for those accounts. The total bill impact for the Residential class is a reduction of 3.7% and 5.8% respectively.

In its submission, Board staff noted that the principal amounts to be disposed as of December 31, 2010 reconcile with the amounts reported as part of the *Reporting and Record-keeping Requirements* ("RRR"). Board staff submitted that the amounts should be disposed on a final basis. Board staff noted that Innisfil Hydro's proposal for a two-year disposition period is not consistent with the guidelines outlined in the EDDVAR Report. However, Board staff also noted that the Board has made previous decisions which deviate from the EDDVAR Report if it deems it in the public interest to do so. Board staff expressed the view that the Board should strike a balance between reducing intergenerational inequities and mitigating rate volatility. Consequently, Board staff supported Innisfil Hydro's request for a two-year disposition period for its Group 1 Accounts.

In its reply submission, Innisfil Hydro agreed with Board staff's submission.

The Board notes that the EDDVAR Report disposition threshold of \$0.001 per kWh has been exceeded. The Board approves the disposition, on a final basis, of a credit balance of \$708,535 as of December 31, 2010, including interest as of April 30, 2012 for Innisfil Hydro's Group 1 Accounts. The Board is of the view that a two-year disposition period, from May 1, 2012 to April 30, 2014, appropriately balances intergenerational equity and rate volatility concerns in this case, versus the one-year disposition period set out in the EDDVAR Report.

The table below identifies the principal and interest amounts approved for disposition for Group 1 Accounts.

Account Name	Account Number	Principal Balance A	Interest Balance B	Total Claim C = A + B
LV Variance Account	1550	-\$218,767	-\$8,788	-\$227,555
RSVA - Wholesale Market Service Charge	1580	-\$248,962	-\$10,507	-\$259,469
RSVA - Retail Transmission Network Charge	1584	\$36,888	-\$4,297	\$32,591
RSVA - Retail Transmission Connection Charge	1586	-\$113,473	\$1,393	-\$112,080
RSVA - Power (excluding Global Adjustment)	1588	-\$117,209	\$2,381	-\$114,828
RSVA - Power – Global Adjustment Sub-Account	1588	-\$30,716	-\$3,522	-\$27,194
Group 1 Total				-\$708,535

For accounting and reporting purposes, the respective balance of each Group 1 account approved for disposition 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). This entry should be completed on a timely basis to ensure that these adjustments are included in the June 30, 2012 (3rd Quarter) RRR data reported.

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 sets out 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.

In the Manager's Summary of its application, Innisfil Hydro did not request the disposition of Account 1562 since the recovery of the SPC was not completed as of December 31, 2010.

In response to Board staff interrogatory #9c, Innisfil Hydro requested the disposition of a credit balance of \$4,061 as at December 31, 2011, including carrying charges until April 30, 2012.

In its submission, Board staff noted that the usual practice by the Board is to dispose of audited deferral and variance account balances. Board staff noted 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. Board staff submitted that it has no concerns with the balances in Account 1521 presented by Innisfil Hydro. Board staff also submitted that 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 as of April 30, 2012. Board staff further submitted that consistent with the disposition period for Group 1 Accounts, a disposition period of two years should be authorized.

In its reply submission, Innisfil Hydro agreed with Board staff's submission.

The Board approves, on a final basis, the disposition of Account 1521 as of December 31, 2010 including carrying charges plus the amounts recovered in 2011, plus projected carrying charges to April 30, 2012, for a total credit balance of \$4,061. Consistent with the disposition period for the Group 1 Account balances, the Board approves a two-year disposition period, May 1, 2012 to April 30, 2014. The Board directs that Account 1521 be closed 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 is effective in rates, which generally is the start of the rate year (e.g. May 1). This entry should be completed on a timely basis to ensure that these adjustments are included in the June 30, 2012 (3rd Quarter) RRR data reported.

Review and Disposition of Lost Revenue Adjustment Mechanism (“LRAM”)

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.

Innisfil Hydro requested the recovery of an LRAM claim of \$180,250 over a one year period. In response to interrogatories from Board staff and VECC, Innisfil Hydro updated its LRAM claim to \$180,467 to reflect the Ontario Power Authority’s (“OPA”) 2010 final results. Innisfil Hydro’s LRAM claim consists of the effect of CDM programs implemented from 2006 to 2010. Innisfil Hydro requested approval of these savings persisting until December 31, 2011.

In its submission, Board staff noted that Innisfil Hydro’s rates were last rebased in 2009. Board staff noted that in its Decision and Order in the EB-2011-0174 proceeding, 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.

Board staff noted that 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. Board staff requested that Innisfil Hydro highlight in its reply submission whether the issue of an LRAM application was addressed in their cost of service application.

Board staff submitted that in the absence of the above information, Innisfil Hydro should not be permitted to recover lost revenues in 2009 for 2009 CDM programs, persisting lost revenues from 2006 to 2008 CDM programs in 2009, or persisting lost revenues from 2006, 2007 and 2009 CDM programs in 2010 and 2011 as these amounts should have been built into Innisfil Hydro's last approved load forecast. Board staff further submitted that it is premature to consider any lost revenues associated with CDM programs delivered in 2010 persisting in 2011.

Board staff supported the approval of the 2010 lost revenues occurring in 2010 as these lost revenues took place during an IRM year and Innisfil Hydro did not previously recover these amounts. Board staff also requested that Innisfil Hydro provide an updated LRAM amount that only included lost revenues from 2010 CDM programs in 2010.

VECC submitted that Innisfil Hydro has appropriately demonstrated through interrogatory responses that savings for the OPA's 2006 Every Kilowatt Counts Program regarding 13-15 W Energy Star CFLs were not included in the LRAM claim beginning in 2010. VECC noted that Innisfil Hydro's last load forecast was approved by the Board in its 2009 cost of service application (EB-2008-0233). VECC submitted that energy savings from Innisfil Hydro's CDM programs implemented from 2006 to 2009 are not accruable in 2009, 2010, and 2011 as savings should have been incorporated in the 2009 load forecast at the time of rebasing. VECC further submitted that Innisfil Hydro calculated estimated lost revenues for 2011 based on the OPA's Measures and Assumptions list and OPA verified results available at the timing of this application, which is not appropriate or in accordance with the CDM Guidelines. VECC supported the approval of lost revenue in 2010 requested by Innisfil Hydro for CDM programs implemented in 2010 as these energy savings occurred post rebasing and have not been claimed.

In its reply submission, Innisfil Hydro provided the updated information requested by Board staff. Innisfil Hydro indicated that the lost revenue associated with 2010 CDM programs in 2010 is \$10,466. Innisfil Hydro also provided actual and forecast volumetric data to further demonstrate that CDM impacts were not included in Innisfil Hydro's 2009 load forecast. Innisfil Hydro expressed the view that they had followed the guidelines outlined in Chapter 2 of the Board's Filing Requirements as the resulting LRAM claim for 2011 included verified 2010 programs and persistence from previous program years until the end of 2011.

The Board will approve an LRAM claim of \$10,466, representing lost revenues associated with CDM programs delivered in 2010. The Board notes that Innisfil Hydro was in IRM in 2010 and has not otherwise recovered these amounts. The Board notes that the calculated rate riders associated with this claim are not material. As such, the Board directs Innisfil to record the approved debit of \$10,466 in account 1595 for future disposition.

The Board will not approve an LRAM claim relating to lost revenues associated with CDM programs delivered in 2010 persisting in 2011, as it is premature to do so and inconsistent with the 2008 CDM Guidelines.

The Board will not approve an LRAM claim relating to lost revenues in 2009 for 2009 CDM programs, persisting lost revenues from 2006 to 2008 CDM programs in 2009 or the persisting lost revenues from 2006, 2007 and 2009 CDM programs in 2010 and 2011, as these amounts should have been reflected in Innisfil Hydro's 2009 load forecast.

The Board notes that the 2008 CDM Guidelines state that 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. The Board is of the view that absent specific language in the decision and order relating to Innisfil Hydro's 2009 cost of service application (EB-2008-0233) that CDM effects are not reflected in the Board-approved load forecast, there is no reasonable basis to deviate from the 2008 CDM Guidelines.

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, "[e]ach 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)."¹

Innisfil Hydro originally applied to dispose of a credit balance in Account 1562 of \$673,289 including carrying charges projected to April 30, 2012 over a one-year period.

On February 4, 2012, Innisfil Hydro updated its evidence and changed the amount to a credit balance of \$154,070.

The Board must make findings on two elements pertaining to the calculation of the PILs Account 1562 balance. The first element pertains to the components of actual interest expense, and the second element concerns the threshold for the determination of excess interest, to be used in the true-up calculations.

In its submission, Board staff noted that when the actual interest expense, as reflected in the financial statements and tax returns, exceeds the maximum deemed interest amount approved by the Board, the excess amount is subject to a claw-back penalty and is shown in the TAXCALC worksheet as an extra deduction in the interest true-up calculation. Board staff noted that this has been a feature of the Board's methodology and was settled in the Combined Proceeding (EB-2008-0381) under issue #13.

Board staff also noted that in Innisfil Hydro's original application, Innisfil Hydro deducted the Board approved maximum deemed interest expense of \$730,894 from actual interest expense to calculate the excess amount subject to claw-back. In response to Board staff interrogatory #13, Innisfil Hydro adjusted the interest true-up calculations to reflect what it considers to be the actual weighted average interest rate of 9.19% related to its debt. A maximum interest of \$926,471 was calculated using the weighted debt rate of 9.19%, and not the Board approved deemed interest rate of 7.25%. This recalculated interest amount of \$926,471 was deducted from actual interest expense to

¹ EB-2008-0381 Account 1562 Deferred PILs Combined Proceeding, Decision and Order, p. 28

calculate excess interest that is subject to a claw-back. Innisfil Hydro utilized the weighted debt rate for the excess interest true-up calculation in the SIMPIL models which resulted in a lower excess interest amount.

Board staff further noted that the interest rate for the purposes of calculating the market adjusted revenue requirement approved by the Board within the RP-2000-0211/EB-2000-0452 application was 7.25%. Board staff submitted that the time limit to ask the Board to vary this decision has elapsed and that Innisfil Hydro has received the benefit of 9.88% return on equity, which was part of the Board's PBR² framework when Innisfil Hydro filed its compliant application, as was the deemed interest rate of 7.25%.

Board staff also noted that Innisfil Hydro's 2002 audited financial statements showed that the long term debt consisted of a debenture payable and a note payable to the Town of Innisfil (the "Town") and a floating rate term loan. The debt disclosure clearly showed that the note payable to the Town bears interest of 7.25% and that the floating rate loan is prime rate less 0.5%.

Board staff further noted that although Innisfil Hydro filed a revised PILs continuity schedule in its interrogatory responses, the schedule did not include the revised true-up adjustments calculated in the updated SIMPIL models in response to Board staff interrogatory #12b and #13i. Board staff estimated that Innisfil Hydro is proposing to reduce the total interest claw-back by \$751,447 and is requesting to dispose a revised final credit balance of approximately \$154,070. Board staff also noted that Innisfil Hydro altered the calculation of excess true-up variance in the SIMPIL models and Board staff submitted that this is not consistent with the methodology outlined in the Combined PILs proceeding. In the Board's decisions for RP-2000-0211/EB-2000-0452 and RP-2002-0062/EB-2002-0071, the Board approved a deemed interest amount of \$730,894 using the 7.25% deemed debt rate and this interest amount was incorporated into Innisfil Hydro's distribution rates. Board staff submitted that this interest amount of \$730,894 should be used as the threshold in calculating excess interest subject to claw-back.

Board staff expressed the view that there are two sources of interest expense that must be compared in the excess interest true-up calculations: firstly, the deemed interest expense approved by the Board in the 2001 unbundling rate application and included in distribution rates; and secondly, the actual interest expense, excluding any interest income offsets, as disclosed in the audited financial statements and deduced in the tax

² First generation performance based regulation for electricity distributors in Ontario, RP-1999-0034, RP-2000-0069.

returns. Board staff submitted that Innisfil Hydro is incorrect in its assumption of using recalculated interest expense related to its actual weighted outstanding debt as a threshold to calculate excess interest subject to claw-back from 2001 to 2005. Board staff submitted that the Board approved maximum deemed interest expense of \$730,894 should be deducted from actual interest expense in determining the excess interest true-up variances in the SIMPIL models, and that Innisfil Hydro should file revised SIMPIL models and the PILs continuity schedule consistent with the Board's methodology.

Board staff also submitted that interest on customer deposits should be deducted from total interest expense per the financial statements in order to be consistent with the Board's decision for Hydro One Brampton's IRM rate application (EB-2011-0174).

Board staff further submitted that Innisfil Hydro should change the amount of interest expense used in the 2001 to 2005 SIMPIL model interest claw-back penalty calculations to reflect Board staff's submission, and update the PILs 1562 continuity schedule and balance to be refunded to customers. Board staff estimated a final credit balance of approximately \$671,287 to be refunded to customers after adjusting for the components of interest expense in the SIMPIL models, prior to adjusting for interest penalties, and correcting the excess interest true-up calculations.

In its reply submission, Innisfil Hydro requested that the Board review the proposed excess interest true-up calculation submitted for the PILs Account 1562 reconciliation. Innisfil Hydro requested a weighted debt rate of 9.19% be allowed within the PILs excess interest-true up calculation. Innisfil Hydro noted that the 9.19% weighted cost of debt capital was approved by the Board within the 2006 electricity distribution rate filing (EB-2005-0382).

Innisfil Hydro also noted that it is not requesting to vary the EB-2000-0452 decision for the deemed debt rate of 7.25%. Innisfil Hydro requested that the Board allow the approved weighted debt rate of 9.19% from EB-2005-0382 decision to be utilized within the PILs excess interest true-up calculation. Innisfil Hydro further noted that it is not requesting collection of the actual interest paid to Royal Trust in excess of the deemed 7.25% from decision EB-2000-0452 during the PILs true-up timeframe of October 2001 to April 2006.

Innisfil Hydro further added that it did not receive the benefit of the 9.88% return on

equity until 2006. The 9.88% rate of return was received in three parts: one-third in 2001, one-third in 2002 and the final one-third in 2005.

Innisfil Hydro also noted that the debt disclosure note in the 2002 financial statements lists the debentures with interest rates of 8.00% to 9.75%. The debentures were third party debt and not affiliate debt. The debentures are listed as payable to the Town within the financial statements because Innisfil Hydro was unable to secure the debentures directly and the Town was listed as debenture payee with Royal Trust.

Innisfil Hydro noted that through the interrogatory process the incorrect version of the revised PILs continuity schedule did not reflect the revised true-up adjustments for the excess interest and the related updated carrying charges. Innisfil Hydro submitted that it would file a final PILs 1562 continuity schedule and 2001 to 2005 SIMPIL model to reflect the decision made by the Board for the excess interest calculation.

Innisfil Hydro also requested that the income tax PILs benefits associated with the excess interest remain with Innisfil Hydro and not be given to ratepayers since the excess interest cost was not borne by ratepayers. The excess interest was paid from the allowed rate of return and not from rates during the applicable time period.

Innisfil Hydro also agreed with Board staff to exclude the interest expense from customers' deposits and the late payment charge from the PILs excess interest-true up calculation.

The Board agrees with the submission of staff that the Board approved maximum deemed interest of \$730, 894 should be deducted from actual interest expense in determining the excess interest true-up variances in the SIMPIL models. The Board is of the view that the use of the actual weighted debt as a threshold to calculate excess interest subject to a claw back over the 2001 to 2005 period is inconsistent with the methodology outlined in the Combined PILs proceeding and directly contrary to past decisions of the Board (RP-2000-0211/EB-2000-0452) issued March 20, 2001, in which the Board approved an interest rate of 7.25% to be used to calculate Innisfil Hydro's market adjusted revenue requirement.

The Board agrees with Board staff that the time limit to apply to the Board to vary these decisions has long since passed. Similarly, the Board will not retrospectively apply the Board's decision EB-2005-0382 which was issued on April 12, 2006. The Board notes

that the effective date of that decision was May 1, 2006. The Board will not engage in retroactive ratemaking in the manner submitted by Innisfil Hydro and doing so would be contrary to the clearly established principle against retroactive ratemaking.

The Board directs Innisfil Hydro to change the amount of interest expense used in the 2001 to 2005 SIMPIL model interest claw-back penalty calculations to reflect the findings in this Decision, and to update the PILs 1562 continuity schedule and balance to be refunded to customers. Innisfil Hydro is also directed to file a schedule of revised interest expense, reflecting the exclusion of interest expense from customer deposits and the late payment charge from the PILs excess interest true-up calculation. The Board notes that Innisfil Hydro agreed with the submission of Board staff that these amounts should be excluded.

Subject to the completion of the Board's directions, the Board approves a two-year disposition period, May 1, 2012 to April 30, 2014, consistent with the findings of the Board elsewhere in this Decision.

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). This entry should be completed on a timely basis to ensure that these adjustments are included in the June 30, 2012 (3rd Quarter) RRR data reported.

IMPLEMENTATION

The Board has made findings in this Decision which change the 2012 distribution rates from those proposed by Innisfil Hydro.

The Board expects Innisfil Hydro to file a draft Rate Order, including all relevant calculations showing the impact of this Decision on Innisfil Hydro'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, other related IRM models and updated SIMPIL models and continuity tables to support the claim for disposition of Account 1562 Deferred PILs.

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

THE BOARD ORDERS THAT:

1. Innisfil Hydro shall file with the Board, and shall also forward to VECC, 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 by 7 days from date of issuance of Decision and Order.
2. Board staff and VECC shall file any comments on the draft Rate Order including the revised models and proposed rates with the Board and forward to Innisfil Hydro within 7 days of the date of filing of the draft Rate Order.
3. Innisfil Hydro shall file with the Board and forward to VECC 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 their cost claims no later than **7 days** from the date of issuance of the final Rate Order.
2. Innisfil Hydro 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 Innisfil Hydro any responses to any objections for cost claims within **28 days** from the date of issuance of the final Rate Order.
4. Innisfil Hydro 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-2011-0176**, be made through the

Board's web portal at, 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. If the web portal is not available parties may email their document to BoardSec@ontarioenergyboard.ca . 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 7 paper copies.

DATED at Toronto, April 19, 2012

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary