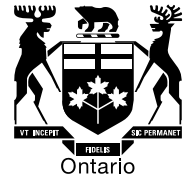


Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273



BY EMAIL

December 15, 2014

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Centre Wellington Hydro Ltd.
2015 IRM Distribution Rate Application
Board Staff Submission
Board File No. EB-2014-0062**

In accordance with Procedural Order No.1, please find attached the Board Staff Submission in the above proceeding. This document is being forwarded to Centre Wellington Hydro Ltd. and to all other registered parties to this proceeding.

Centre Wellington Hydro is reminded that its Reply Submission is due by January 12, 2015.

Yours truly,

Original Signed By

Georgette Vlahos
Analyst, Electricity Rates & Accounting

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2015 ELECTRICITY DISTRIBUTION RATES

Centre Wellington Hydro Ltd.

EB-2014-0062

December 15, 2014

**Board Staff Submission
Centre Wellington Hydro Ltd.
2015 IRM Rate Application
EB-2014-0062**

Introduction

Centre Wellington Hydro Ltd. (“Centre Wellington Hydro”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on September 25, 2014, seeking approval for changes to the distribution rates that Centre Wellington Hydro charges for electricity distribution, to be effective May 1, 2015. The Application is based on the 2015 Price Cap IR option.

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 Centre Wellington Hydro.

Retail Transmission Service Rates

Board staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Centre Wellington Hydro. Pursuant to the Board’s Guideline G-2008-0001, Board staff notes that the Board will update the applicable data at the time of the Board’s Decision on the Application based on the Uniform Transmission Rates in place at that time.

Tax-Savings

Board staff notes that the Shared Tax-Savings portion of the Rate Generator Model reflects the Revenue Requirement Work Form from the Board’s cost of service decision in EB-2012-0113. Board staff has no concerns with the information as filed.

Deferral and Variance Account Disposition

Centre Wellington Hydro completed the Deferral and Variance Account continuity schedule included in the 2015 IRM Rate Generator Model at Tab 5 for its Group 1 Deferral and Variance Accounts. Centre Wellington Hydro’s total Group 1 Deferral and Variance Account balances amount to a debit of \$215,383. The balance of Account 1589 – Global Adjustment Sub-Account is a debit of \$225,911, and is applicable only to

Non-RPP customers. These balances also include interest calculated to April 30, 2015. Based on the threshold test calculation, the Group 1 Deferral and Variance Account balances equate to \$0.0015 per kWh which exceeds the threshold, and as such, Centre Wellington Hydro requested disposition of these Accounts over a one-year period.

Board staff has reviewed Centre Wellington Hydro's Group 1 Deferral and Variance Account balances and notes that the principal balances as of December 31, 2013 reconcile with the balances reported as part of the *Reporting and Record-keeping Requirements* with the exception of Account 1580.

In response to Board staff interrogatory #1, Centre Wellington Hydro agreed with Board staff that the figures entered for Account 1580 in the 2013 Board-approved principal and interest columns of tab 5 of the model were incorrect. Centre Wellington Hydro provided the corrected amounts and requested that Board staff update the model.

Upon making this update, Board staff notes that there is now a -\$21,460 variance between the *Reporting and Record-keeping Requirements* and the 2013 balance (principal and interest). In its reply submission, Board staff asks Centre Wellington Hydro to provide an explanation for this variance.

In response to Board staff interrogatory #3, Centre Wellington Hydro confirmed that it does not serve any Class A customers, however it does serve a Wholesale Market Participant ("WMP"), which was not taken into account in calculating its deferral and variance account rate riders in its initial 2015 IRM application submitted September 25, 2014. As part of its interrogatory responses, Centre Wellington Hydro provided new proposed rate riders for the disposition of its Group 1 Accounts based on the following groupings:

- Rate rider for the disposition of deferral/variance accounts for all customers (Accounts 1550, 1551, 1584, 1586, 1595);
- Rate rider for the disposition of deferral/variance accounts for all non-WMP customers (Accounts 1580 and 1588);
- Rate rider for the disposition of the Global Adjustment account, of which the WMP is excluded (Account 1589).

Board staff has reviewed the supporting calculations for the proposed rate riders for the

disposition of Group 1 Accounts, and takes no issue with the calculations and methodology.

Subject to Centre Wellington Hydro's confirmation regarding the balances in Account 1580, Board staff takes no issue with Centre Wellington Hydro's request to dispose of its 2013 Deferral and Variance Account balances at this time over the requested one year period.

Board staff makes detailed submissions on the following:

- Request for Deferral Account - Street Lighting Rate Class: LED Transition.

Background

In its Application, Centre Wellington Hydro noted that the Township of Centre Wellington will be converting street lights to LED in the latter part of 2015. Consequently, Centre Wellington Hydro requested the establishment of a variance account to track actual revenue against forecasted revenue for the Street Lighting customer class following this transition. Centre Wellington Hydro requested the use of this account to track the variance until its next cost of service application, scheduled for 2017 rates.

As part of its interrogatories, Board staff asked Centre Wellington Hydro to provide further reasoning, addressing the causation, materiality and prudence for such an account. Board staff also questioned if Centre Wellington Hydro was of the view that any, or the entire variance amount, could be recovered through the LRAMVA mechanism.

In its responses, Centre Wellington Hydro noted that based on the current proposed conversion program, the revenue in the Street Lighting class will be reduced by an estimated 64% in aggregate for the installed months in 2015, 2016 and until April 30, 2017. Centre Wellington Hydro noted that while it has no control over the timing of the Township's conversion to LED lighting, the conversion will have a long-term effect on the distribution revenues for the Street Lighting rate class.

Centre Wellington Hydro noted that, at present, the Township has not made a commitment to initiate the program conversion under the OPA province-wide CDM Program, although the CDM program has been promoted to the Township.

Submission

Board staff notes that the Board established a mechanism that records and allows for recovery of lost revenues that result from implementing approved CDM programs in the Board's *Guidelines for Electricity Distributor Conservation and Demand Management*, EB-2012-0003 (the "2012 CDM Guidelines"). However, the 2012 CDM Guidelines are only applicable to CDM activities between January 1, 2011 and December 31, 2014.

The Minister of Energy issued a directive to the Board on March 31, 2014 (the "Conservation Directive") outlining a number of areas related to both electricity and natural gas conservation activities the Board must address. Section 3 of the Conservation Directive requires the Board to establish new CDM Requirement Guidelines and have regard to the fact that "lost revenues that result from Province-Wide Distributor CDM Programs or Local Distributor CDM Programs should not act as a disincentive to Distributors...¹". The Board is required to address the elements of the Conservation Directive by January 1, 2015. Based on the direction from the Minister of Energy, Board staff submits that new CDM Guidelines, which must include guidance regarding lost revenues related to CDM activities between 2015 and 2020 not acting as a disincentive to distributors, will be issued in the near future, and on or before January 1, 2015.

However, Board staff recognizes that it is still unclear whether Centre Wellington Hydro could avail itself of a lost revenue mechanism, since it is uncertain whether the conversion to LED streetlights by the Township will be done under a province-wide CDM program through the OPA.

Chapter 2 of the *Filing Requirements for Electricity Distribution Rate Applications* issued July 18, 2014, notes that in the event an applicant seeks to establish a new deferral/variance account, the following eligibility criteria must be met:

- Materiality – The forecasted amounts must exceed the Board-defined materiality threshold and have a significant influence on the operation of the distributor,

¹ Directive from the Minister of Energy to the Board, March 31, 2014, Section 3(iii)

otherwise they must be expensed in the normal course and addressed through organizational productivity improvements;

- Causation – The forecasted expense must be clearly outside of the base upon which rates were derived; and
- Prudence – The nature of the costs and forecasted quantum must be reasonably incurred although the final determination of prudence will be made at the time of disposition. In terms of the quantum, this means that the applicant must provide evidence demonstrating as to why the option selected represents a cost-effective option (not necessarily least initial cost) for ratepayers.

Board staff notes that for a distributor with a distribution revenue requirement less than or equal to \$10 million, the default materiality threshold is \$50,000. Centre Wellington Hydro's revenue requirement based on its last rebasing application is \$3,023,099. According to the information filed by Centre Wellington Hydro as part of its interrogatory responses, the potential annual revenue shortfall for the Street Lighting rate class is \$10,528.83². Notwithstanding the criteria of causation and prudence, Board staff notes that the materiality threshold of \$50,000 has not been met and as such, Board staff does not support the request for the establishment of a separate account.

In addition, as outlined in the Board's CDM Guidelines issued on April 26, 2012 (the "2012 CDM Guidelines), Account 1568 – Lost Revenue Adjustment Mechanism Variance Account ("LRAMVA") was established to ensure distributors were held revenue-neutral with respect to lost revenues that resulted from implementing approved CDM programs between 2011 and 2014. The development of Account 1568 - LRAMVA was consistent with the CDM Directive issued by the Minister of Energy and Infrastructure to the Board on March 31, 2010 ("2010 CDM Directive").

As noted in the preceding paragraphs, the Board has been directed to continue to ensure that lost revenues from CDM programs continue to not act as a disincentive to distributors. Board staff notes that the Board's decision in Innisfil Hydro's 2015 IRM application (EB-2014-0086) addresses this issue. In that decision, the Board stated that "in light of the impending guidance to be provided by the Board with respect to CDM, the Board agrees that it would be inappropriate to establish a new variance account at this time"³.

² EB-2014-0062, Interrogatory Responses, Page 6

³ EB-2014-0086, Decision and Rate Order, Page 7

Board staff notes that at the present time, there is uncertainty with the quantum and the timing of the streetlight conversion program, given that the Township has not determined whether it or Centre Wellington Hydro will complete the transition under the OPA province-wide CDM program. If the Township elects to have Centre Wellington Hydro implement the conversion program on behalf of the Township, and through the OPA province-wide CDM program, Board staff submits that Centre Wellington Hydro will not require the additional variance account in any event, as it will likely duplicate the pending guidance to be provided by the Board related to lost revenues resulting from CDM programs going forward. Therefore, Board staff does not support the applicant's request to establish a new variance account to record and track various data points related to its Street Lighting rate class.

All of which is respectfully submitted