

Electricity Distributors' Deferral and Variance Account Review, Board Staff Discussion Paper

### **Submissions of the School Energy Coalition**

1. These are the submissions of the School Energy Coalition ("SEC") in respect of the Board Staff Discussion paper dated April 1, 2009 on Electricity Distributors' Deferral and Variance Account Review.
2. Board Staff invited submissions on a number of areas. SEC has provided comments in areas where it feels it can be of assistance to the Board.

### **Scope**

3. Board Staff has proposed that this review initiative be extended to all accounts, not just Account 1588. SEC supports that proposal.

### **Section 5.1.1: Proposed Classification Criterion and Composition of Group 1 Accounts**

4. Board Staff has proposed that accounts 1550, 1580, 1584, 1586, and 1588 be designated as "Group 1" accounts- i.e. those that do not require a prudence review. SEC has no issues with the accounts proposed to be included in Group 1. However, SEC submits that a clarification be

made to stipulate that the fact that a prudence review is not required does not mean that parties may not seek information and make submissions as to the calculation of the balances in the account. This issue will be re-visited in greater detail below in submissions related to the proposed procedure for clearing Groups 1-3 accounts.

### **Section 5.2: Customer Rate Impact**

5. Board Staff proposes to limit disposition of deferral accounts to a level that keeps the rate impact at or below \$0.01/kWh for residential consumers (the "Rate Impact Threshold").

6. It is not clear from the Board paper whether the Rate Impact Threshold would be calculated with reference to the rate impacts resulting from disposition of Group 1 and 2 accounts only or for all deferral accounts combined. It appears to be the former, since the discussion of the Rate Impact Threshold takes place in section 5.2, which discusses "Disposition Threshold for Groups 1 and 2." [p. 14]

7. It appears, however, that the point of the Rate Impact Threshold is to limit rate impacts to a reasonable level. SEC does not believe, therefore, that there is any reason to limit the calculation of the threshold to rate impacts resulting from disposition of Group 1 and 2 accounts. Although there is no triggering threshold for disposition of Group 3 accounts, they nonetheless do carry a rate impact and there is no reason, in SEC's submission, to treat them differently when the issue is what level of rate impact is acceptable.

8. SEC also believes the Rate Impact Threshold is set too high. The Board Staff paper indicates that the level was adopted to coincide with the Board's Distribution Rate Handbook,

which states that an applicant must file a mitigation plan if total bill increases for any customer class or group exceeds 10%. However, the Distribution Rate Handbook applies refers to rate impacts resulting from a cost of service rate application. The 10% threshold therefore applies to the rate impact resulting from a review of all of the applicant's costs and revenues, including all deferral and variance account dispositions. SEC believes it is inappropriate to apply the same threshold to deferral account dispositions, since it is unlikely that they will be the only rate impact facing customers in a particular year.

9. Using the Board's threshold, for example, customers could see a 9% increase from Group 1 and 2 deferral account disposition, a further increase from Group 3 disposition (assuming the Rate Impact Threshold only includes Group 1 and 2 accounts), plus a further increase in distribution rates and commodity prices. Despite the fact that the combination of these increases could result in a single-year rate impact well in excess of 10%, no rate mitigation plan would be necessary.

10. SEC suggests that the threshold should be set so that, in total, customers do not face a total bill increase exceeding 10% in a year. Since the Board cannot know in advance what other increases ratepayers will be facing, that may mean that it is not possible to establish, in advance, a uniform threshold with respect to deferral accounts. However, it also means that ratepayers across the province would be treated equally with respect to what level of total, single-year, impact is acceptable absent a rate mitigation plan.

### **Section 5.4.3: Review Process if Disposition is Triggered for Group 1 Accounts**

11. While SEC believes it is appropriate that disposition of Group 1 accounts be done on a stream-lined basis, SEC notes that an opportunity to make submissions is of limited value without a discovery process.

12. Therefore, if the Board is of the view that parties should have the right to make submissions in respect of the disposition of Group 1 accounts, which SEC supports, then a discovery process is essential. Even if no prudence review is necessary for disposition of these accounts, parties may still have questions to determine if the balances have been properly calculated.

13. SEC believes that allowing for a discovery process need not delay the disposition of Group 1 accounts. Written interrogatories, if any, would likely be minimal. SEC suggests that the streamlined review process be extended to 45 days, which would allow for two weeks for discovery – one week for questions and one week for answers.

#### **5.5.1: Pre-Set Disposition Threshold for Group 2 accounts**

14. SEC believes the disposition threshold for disposition of Group 2 accounts is too high. The reason is that the disposition threshold is equivalent to the Rate Impact Threshold set out in section 5.2. This means that Group 2 accounts will, by definition, only be disposed of when their collective balance exceeds the Board's Rate Impact Threshold. In essence, every disposition of Group 2 accounts will require a rate mitigation plan. If these accounts were disposed of more frequently it would, obviously, lower the rate impact and therefore obviate the need for a rate mitigation plan.

15. SEC suggests that the threshold for triggering disposition of Group 2 accounts be lowered to \$0.05/kWh, or half the level that would trigger a rate mitigation requirement. SEC notes that at that level, somewhere between 4 and 13 distributors would have required disposition in 2007 [see p. 20 of Board paper].

16. SEC's comments on the threshold for Group 2 accounts also apply to Board Staff's proposal in Section 7 of the Board Staff paper in respect of the quarterly review of Account 1588.

### **5.5.3: Review Process if Disposition is Triggered for Group 2 Accounts**

17. Board Staff has proposed that, if the disposition of Group 2 Account balances is triggered during the IR plan term, application be made as part of the IR rate application for that year. SEC agrees with that approach, assuming that that would allow for a discovery process. Please see SEC's submissions in section 5.4.3 above regarding the need for a discovery process.

### **5.6: Review Process and Preset Disposition Threshold for Group 3 Accounts**

18. Board Staff has proposed that there be no preset disposition threshold for Group 3 accounts and that, instead, the current procedure, whereby the Board determines which accounts should be cleared on a case by cases basis, be maintained.

19. SEC does not disagree with the Board acting as a gatekeeper to determine which account or accounts should be considered for disposition. However, in SEC's submission the process outlined in Figure 4 on p. 21 of the Board Staff paper requires some clarification.

20. First, the current diagram implies that, once the Board determines, based on its screening process, that an account or account should be "considered for disposition" (i.e. the diagram follows the "YES" route), a written hearing will occur, following a rate order. SEC believes the proposed process should be clarified to state that one of the outcomes of the hearing could be that there is no disposition. That is, at the conclusion of the hearing the Board could conclude, for example, that the evidence is unclear and that disposition should not be ordered at that time.

21. Second, the procedure contemplated in Figure 4 appears to stipulate that a written hearing will be held. It is not clear what form that written hearing would take.

22. As stated above, an opportunity to provide submissions without a discovery process is of limited value. therefore SEC believes that the hearing contemplated should include a discover process.

23. Also, while it is likely that a written hearing will most often be the most appropriate method of reviewing Group 3 accounts, that may not always be the case. Some of the accounts included in Group 3, for example the two smart meter accounts (1555, 1556) and the Extraordinary Events account (1572), are likely to have substantial balances made up of expenditures under management's control. It may not always be appropriate to deal with disposition of those accounts by way of a written hearing. SEC suggests that the panel reviewing the matter determine the form of the hearing.

#### **Section 6: Annual Review Process and Disposition of Account Balances in a Rebasing Year**

24. SEC agrees with Board Staff's proposal that all account balances be disposed of in a rebasing year, unless the applicant justifies why a particular account should not be disposed of.

SEC submits that this proposal be clarified to stipulate the interested parties may propose that certain accounts either not be disposed of, or disposed of over a longer period as a rate mitigation exercise.

All of which is respectfully submitted this 25<sup>th</sup> day of May, 2009.

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John De Vellis  
Counsel to the School Energy Coalition