



ONTARIO ENERGY BOARD

STAFF SUBMISSION

TILLSONBURG HYDRO INC.

2009 ELECTRICITY DISTRIBUTION RATES

EB-2008-0246

July 31, 2009

Introduction

The Board issued its Decision on the rate application for Tillsonburg Hydro (THI) on July 10, 2009.

Included in the Decision was the following Board Findings on implementation and rate mitigation.¹

Implementation

“Given the date of this Decision, the time that it will take for THI to file a draft rate order; for parties’ submissions on the draft rate order, for THI’s reply submission and for Board review of all the material, it does not appear that the new rates can be implemented prior to September 1, 2009. The Board will assume September 1, 2009 as the target implementation date.

As the Board has made the rates interim as of May 1, 2009, there are no legal impediments for the Board to find an effective date of May 1, 2009. However, this would constitute retroactivity. As the Board has stated on many occasions, even if there are no legal impediments, the Board does not condone retroactivity. While there may be some legitimacy for the causes of delay in this case, THI should not be totally absolved of the adverse consequences caused by retroactivity. It is not reasonable to expect customers to be burdened with retroactivity, no matter how the retroactivity is morphed into rates or bills. The Board finds that, on balance, an effective date of June 15, 2009 is reasonable in the circumstances. The reasons for the delay in completing this proceeding primarily lie with THI. Therefore, the Board finds that the new rates shall be effective June 15, 2009. For additional clarity, there will be no recovery of any foregone distribution revenue from May 1, 2009 to June 14, 2009.

Throughout the decision, the Board has used a “nominal” term of two years in relation to the disposal of the deferral and variance accounts. As the 2009 rates will be implemented as of September 1, 2009, for the rate riders to dispose of the deferral and variance account balances THI is directed to calculate the rate riders on the basis of a duration until April 30, 2011.

¹ Board EB-2008-0246 Decision pages 48 – 49 and page 46

In developing its Draft Rate Order, THI is directed to establish the 2009 rates assuming a 12 month recovery period. As the effective date of the rates will be June 15, 2009 and the implementation date will be September 1, 2009, THI is directed to calculate rate riders that would recover the foregone distribution revenue from June 15, 2009 until August 30, 2009 and should propose an appropriate time period for recovery, giving due consideration to bill impacts. THI must include supporting materials to satisfy the Board that the revenues received would recover only the foregone revenues.

The Board's findings outlined in this decision are to be reflected in material, commonly referred to as a Draft Rate Order. The Board expects THI to file detailed supporting material, including all relevant calculations showing the impact of this Decision on THI's proposed revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates, including rate impacts. Supporting documentation shall include, but not be limited to, filing a completed version of the Revenue Requirement Work Form excel spreadsheet, which can be found on the Board's website. The reductions made by the Board on certain items shall also reflect the associated reductions in the application of the 5% management on those items, as appropriate. THI should also show detailed calculations of the revised retail transmission rates reflecting this Decision.

Rate Mitigation

"Earlier in this Decision, the Board did not approve the proposed consolidation of the USL and Sentinel Lights classes. Also, the Board's findings on the disposition of the overall credit balance in the deferral accounts will offset bill increases. Further, the Board's findings throughout this Decision will result in a lower revenue requirement than proposed by THI, and a lower smart meter rate adder than proposed. The result of these will be lower bill impacts for affected customers than what was included in THI's application. The Board does not anticipate that typical customers, as customarily measured by the Board, will experience bill impacts greater than 10%. Should that be the case, the Board expects THI to identify and report these situations when it files its draft rate order and the Board will be guided by those reports."

General

In the preparation of this submission, Board staff has had the benefit of reading the submission by Energy Probe dated July 28, 2009 and concurs with parts a), b) and c). Board staff makes its own submission regarding part d), the rate mitigation issue.

This submission reflects observations and concerns which arise from Board staff's review of the "Draft Rate Order" material provided by THI on July 24, 2009 as its "fulfillment of the Board's requirement"² reflecting the Decision. Pages 1 and 2 of the material outline the process used by THI.

It is Board staff's understanding that Attachments A, B and C provide the results of applying the Board's findings, without consideration of any resulting bill impacts.

THI states that "As Attachment C shows, the computed Bill Impacts that would be experienced by many customer classes would exceed 10%".

Attachment D provides the documentation of THI's initial mitigation of these bill impacts through a reduction in the duration of the rate riders associated with the disposition of the deferral account balances by one year from April 30, 2011 to April 30, 2010 and the determination of the duration of the rate riders associated with recovery of the foregone revenue to April 30, 2011.

THI states that "Inspection of Attachment D shows that General Service <50 kW, General Service >1,500 kW, Unmetered Scattered Load, Sentinel Lighting customers would still experience bill impacts of greater than 10%". In order to further mitigate the bill impacts to 10% or less, THI proposed to adjust the revenue to cost ratios, as necessary, for the various classes. Attachment E provides the documentation of this mitigation procedure, which results in bill impacts of 10% or less.

In addition, THI indicates that the proposed fixed monthly General Service 500 – 1,499 kW rate has been decreased to \$950 so that the variable rate is approximately equal to the transformer ownership allowance.

² THI "Draft Rate Order" material, page 1, paragraph 1

Board Staff Submissions

Board staff seeks clarity from THI as to what set of rates it is actually submitting for approval. The last sentence of the first paragraph of its material states that “THI’s proposed Draft Rate Order is provided at Attachment A”. It then goes on to produce two supplementary sets of rates (Attachment D and Attachment E) that incorporate mitigation revisions to address bill impacts. Subject to clarification, Board staff has based its review on the premise that the rates set out in Attachments D and E are provided for the Board’s guidance should it determine that some form of rate mitigation is necessary.

Board staff submissions will be focused only in those areas where Board staff requires more explanation or clarification and that have not been addressed by Energy Probe in its submission.

Before addressing specific concerns, Board staff would like to comment on the provision of the material to reflect the Board Findings, as directed by the Board’s Decision, particularly in the Implementation section.

Board staff submits that it is imperative for THI to provide the completed version of the Revenue Requirement Work Form (RRWF) in the working excel spreadsheet format. While the material provided by THI may in fact include the appropriate changes, the review of the completed RRWF provides a straightforward document which shows the changes. In addition, a more descriptive explanation as to how the changes were incorporated would have been very helpful. For example, if this had been provided, the adjustments to the level of the management service fee that had to be made could have been specifically and clearly identified.

To illustrate the management service fee confusion mentioned by Energy Probe and alluded to above, Board staff has prepared the following two tables. Table 1 is determined from the Draft Rate Order material, Attachment B.3 page 2. The second table is Board staff’s understanding with regards to the inclusion of the management service fee component.

Table 1

	\$
1 Reduced labour costs	168,750
2 Reduced Director’s cost	18,400

3	Reduced paper & postage costs	30,000
4	Reduced CIS cost	21,825 ¹
5	Reduced regulatory costs	31,250
6	Total	270,225

1 apparently includes 5%
management fee

These costs reflect the findings and are exclusive of the management fee, except for the CIS cost. Adjusting for the management fee, the adjustments to the revenue requirement should be:

Table 2

	\$
1 Reduced labour costs	177,188
2 Reduced Director's cost	19,320
3 Reduced paper & postage costs	31,500
4 Reduced CIS cost	21,825
5 Reduced regulatory costs	32,813
6 Total	282,646

The difference between the two totals is \$12,421. This amount may have been captured in another aspect of the Draft Rate Order material and if so Board staff would ask THI to point to where it is. Otherwise, Board staff submits that the reductions shown in Table 2 should be the basis.

Board staff also makes submissions on the following specific items:

1. Determination of levels of Monthly Service Charges;
2. Revenue to Cost Ratios; and
3. Rate mitigation adjustments.

Determination of levels of Monthly Service Charges

In the Board's Decision, the Board directed THI to maintain the existing fixed charges.³ The rates proposed by THI for its metered customers are \$0.50 higher than the existing levels. Board staff assumes that this difference reflects the Board's finding regarding the smart meter funding adder⁴, which approved a level of \$0.50 per month per metered

³ Board EB-2008-0246 Decision, page 43

⁴ *ibid*, page 30

customer. However, the existing rates already include a smart meter funding adder of \$0.26 per month per metered customer. Board staff submits that the levels of the monthly service charges for metered customers have to be reduced by \$0.26 to reflect the Decision.

Revenue to Cost Ratios

In its Final Argument, THI provided a summary of the Cost Allocation run results it used as the starting point for its 2009 rate proposal. The associated Revenue to Cost Ratios (R/C ratios) were:

- Residential 123.74%
- GS<50 110.57%
- GS>50-499 56.68%
- GS 500-1499 53.75%
- GS 1500-5000 34.67%
- Street Lighting 317.37%
- USL 74.91%

VECC submitted that THI's revised filing in response to an Energy Probe interrogatory #40 a), which included a revision with respect to the application of the Street Lighting connections rather than the customer count together with the transformer ownership allowance adjustment should be the starting point. The R/C ratios from that response were:

- Residential 139.17%
- GS<50 121.59%
- GS>50-500 60.64%
- GS 500-1499 42.24%
- GS 1500-5000 9.97%
- Street Lighting 45.81%
- USL 76.20%

In the Board's Decision, the Board indicated that the "starting point" R/C ratios would be THI's revised version of its Cost Allocation Informational filing that reflected the revised treatment of the transformer ownership allowance⁵.

⁵ ibid, page 41

Board staff submits that it would have been logical for THI to have used these last R/C ratios as its starting point. The parenthetical references stated on page 2 of its Draft Rate Order material appear to be from a different set of R/C ratios. Board staff requires clarification as to the “starting point” ratios that THI actually used and revise its material accordingly if necessary.

Rate mitigation adjustments

Throughout THI’s evidence, it has indicated that there was no need for any rate mitigation.

In its AIC⁶, THI states:

“THI proposes to adjust rates so that over a two year period all its rates achieve Revenue:Cost ratios consistent with the Board approved ranges as per established Board practice. THI acknowledges that for some customer classes this adjustment, independent of the proposed recovery of the claimed revenue deficiency, will result in large rate changes. This is further exacerbated for the customer classes that are eligible for Transformer Ownership Allowance; previously, THI’s General Service 500 – 4,999 kW variable distribution rates were less than the authorized Transformer Ownership Allowance. THI’s proposed recovery of its computed 2009 Test Year gross revenue deficiency in combination with changes to move this customer class towards the lower end of the Board’s authorized Revenue:Cost ratio results in a significant bill impact.

THI did not propose to mitigate rates further out of concern for the associated undesirable consequences to other customer classes that would be required so that THI could recover its proposed 2009 Test Year revenue requirement. THI notes that its distribution rates have chronically under earned versus the Board authorized maximum Allowed Rate of Return. THI submits that its customers have enjoyed rate mitigation in those years when THI incurred the ongoing costs to provide an appropriate quality of service and its shareholder was not afforded an opportunity to earn a fair rate of return on invested capital.”

⁶ THI Argument in Chief filed May 16, 2009, page 11

In its Reply Argument⁷, THI states:

“In its application, THI proposed to recover variance and deferral account balances over a two year period as a form of rate mitigation. THI submits that its cost control of past periods provided rate mitigation. In 2009 THI submits that it is in the public interest to authorize the proposed rates without any rate of bill impact mitigation so that THI’s customers have better information on the costs incurred to provide service and can make sound decisions on energy issues.”

Subject to the lack of anything specific to the contrary, Board staff assumes that THI maintains this position. Therefore, Board staff has considered the material associated with Attachments D and E as hypothetical revisions should the Board consider the need for rate mitigation.

In Board staff’s submission of May 29, 2009 we stated:

“In this particular application, Board staff submits that the desire for revisions to the cost allocation and the rate design proposals ought to be considered above the resultant bill impact threshold issue and that subject to an examination of the requested impacts to the former Sentinel Lighting accounts, there is no need to introduce specific rate mitigation measures. While this will result in bill impacts greater than 10%, it appears that THI is prepared to accept the consequences and any resultant customer questions.”

The following lists the bill impacts extracted from submissions by THI as part of its April 14 filing and as Attachment C.2 in its DRO material for the various customer classifications.

Residential @ 1,000 kWh

- April 14 filing +9.1% (winter) and +8.8% (summer)
- DRO Attachment C2 +6.2% (winter) and +6.0% (summer)

GS <50 kW @ 2,000 kWh

- April 14 filing + 14.3%
- DRO Attachment C2 +14.0%

⁷ THI Reply Argument filed June 4, 2009, page 36

GS <50 kW @ 3,256 kWh (class average)

- April 14 filing + 14.1%
- DRO Attachment C2 +14.6%

GS >50 kW @ 124 kW and 42,574 kWh (class average)

- April 14 filing + 12.5%
- DRO Attachment C2 +10.7%

Sentinel Lighting @ 0.20 kW and 78 kWh (class average)

- April 14 filing N/A
- DRO Attachment C2 +18.1%

Street Lighting @ 320 kW and 110,842 kWh

- April 14 filing – 1.1%
- DRO Attachment C2 +7.9%

USL @ 730 kWh

- April 14 filing + 10.9% (note this might be the bill impact of the proposed combined USL and Sentinel Lighting customers)
- DRO Attachment C2 +18.6%

GS >500 kW @ 750 kW and 335,000 kWh

- April 14 filing + 10.9%
- DRO Attachment C2 +7.0%

GS >1,500 kW @ 2,500 kW and 1,000,000 kWh

- April 14 filing + 13.6%
- DRO Attachment C2 +14.5%

Board staff submits that the differences in the bill impacts between the two filings is not that significant. If THI was willing to live with the bill impacts shown in its April 14th filing, it would probably be willing to live with the resultant bill impacts.

Depending on the revisions to the bill impacts that might result from the suggested Revenue to Cost ratio starting point levels, the bill impacts from Attachment C.2 will

differ. Despite these possible changes, Board staff continues to submit that in this particular application the need for rate mitigation measures is not required.

All of which is respectfully submitted