ONTARIO ENERGY BOARD

STAFF SUBMISSION

Enersource Hydro Mississauga Inc.

EB-2009-0193

2010 ELECTRICITY DISTRIBUTION RATES

November 13, 2009

Introduction

Enersource Hydro Mississauga Inc. ("Enersource" or the Applicant) is an Ontario corporation. The applicant carries on the business of owning and operating electricity distribution facilities in the City of Mississauga.

Enersource filed an application with the Ontario Energy Board, received on July 7, 2009, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that Enersource charges for electricity distribution, to be effective January 1, 2010. The application was filed under the Board's guidelines for 3rd Generation Incentive Regulation, which provides for a mechanistic and formulaic adjustment to rates between cost of service applications.

The Board allowed intervenors in relation to Enersource's requests for rates to be effective January 1, 2010 rather than May 1, 2010. The intervenors of record include: the Association of Major Power Consumers in Ontario ("AMPCO"), Consumers Council of Canada ("CCC"); Energy Probe Research Foundation ("EP"), the School Energy Coalition ("SEC") and the Vulnerable Energy Consumers Coalition ("VECC"). All have been active participants in the review of the application.

The Application

Enersource indicates that if the application is approved as filed, a residential customer consuming 800 kWh per month would experience an approximate 2.6% increase in delivery charges. This is a $0.84 increase per month on the delivery portion of the bill. A small general service customer consuming 2,000 kWh per month and having a monthly demand of 50 kW or lower would experience an approximate 1.2% increase in delivery charges. This is a $1.02 per month increase on the delivery portion of the bill.

The application seeks approval for rates to be effective January 1, 2010 rather than May 1, 2010, the latter being the commencement of the rate year in accordance with Board practices. Enersource refers to this as an alignment of the Rate Year with the Fiscal. To effect this change Enersource proposes:

- Amending the 3rd Generation IRM Price Cap Index formulation[1] by replacing the current GDP-IPI 12 month annual growth rate for the fourth quarter ended December 31, 2009 and proposing to use the GDP-IPI 12 month growth rate for the third quarter ended September 30, 2009.
- Using 8/12th's of the Price Cap Index to avoid double-counting for the four month overlap period of January 1 to April 30, 2010. .
- Crediting the equivalent of 4/12th's of the 2009 Shared Tax Savings Z- Factor by means of a rate rider over the January 1 to December 31, 2010 period.

In addition the application includes a request to increase the current smart meter funding adder from $1.41 to $2.17 per metered customer per month.

General

This submission reflects observations and concerns which arise from Board staff's review of the pre-filed evidence, and interrogatory responses. It is intended to assist the Board in evaluating these applications and in setting just and reasonable rates.

Change in effective date to January 1 from May 1

Background

Before the enactment of Bill 35 and deregulation, changes to municipal utilities' rates were set annually on January 1 each year under regulation by Ontario Hydro.

The 2000 Distribution Rate Handbook proposed to change that date to March 1. This was subsequently altered to April 1 due to practical difficulties in issuing Decisions and Rate Orders under first generation Performance Based Regulation.

With the implementation of the Regulated Price Plan ("RPP") the effective date changed to May 1 in 2005 to coincide with the annual RPP changes. This was driven by the desire to contain the number of rate changes in order to minimize customer confusion

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[1] Reference: Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors
July 14, 2008

and changes to the distributors' billing system. As of 2006, however, the RPP was subject to review and potential change twice a year - on May 1st and November 1st.

In its 2009 3rd Generation IRM application, Enersource requested that the rates to be approved be declared final from May 1, 2009 to December 31, 2009, and be approved on an interim basis from January 1, 2010 to April 30, 2010. Enersource intended to file a future application to "align the rate year with Enersource's fiscal year." The Board denied the request in its Decision and Order (EB-2008-0171).

In the current application Enersource has requested a change in the effective date to January 1, 2010. Enersource indicates there is currently a misalignment between its fiscal year (commencing January 1) and its rate year (May 1). The result of this misalignment is that Enersource's actual rate of return does not match the approved rate of return. Enersource, as a reporting issuer, is required to explain this outcome to the investment community, including bondholders, which Enersource claims is a complex matter.

Discussion and Submission

Issue: Change in effective date

Board staff accepts Enersource's position that it and the investment community would benefit from the alignment of the rate year with the fiscal year. However, in the past the Board has had concerns about multiple rate changes in one year. If Enersource's proposal is accepted, there could be three changes on the customer's bill annually. Whether customer confusion can be mitigated through a communications effort by Enersource is unknown. Board staff does note, however, that natural gas customers typically see four changes on their bills annually, without apparent confusion or dissatisfaction.

Issue: Proposed change in determination of the GDP-IPI 12 month growth rate

Should the Board approve the change in effective date, Board staff suggests some implementation changes to what Enersource has proposed. Board staff has concerns with the proposal of using third quarter GDP-IPI as suggested by Enersource. Statistic Canada publishes GDP-IPI data every quarter. The third quarter Statistic Canada data is published at the end of November, which would leave only one month to issue a Board's

Decision and Final Rate Order. In addition, Board staff notes this may present challenges for the applicant to effect rate changes and test its billing system.

As a practical alternative, Board staff suggests using second quarter GDP-IPI data, which is available at the beginning of September. This would provide a more reasonable time frame to calculate and include in rates which are to be implemented on January 1. Board staff notes that both Union Gas and Enbridge, which have a January 1 rate year, use the 2nd quarter GDP-IPI data to establish rates for their next period.

Issue: Transition to Effective Date and other concerns

Board staff believes that Enersource's proposal to apply 8/12th's of the Price Cap Index in 2010 is reasonable. While this might not be a "perfect" adjustment to account for the transition to a new rate year, Board staff does not believe that there is any material harm or benefit to ratepayers or the shareholder as a result of using this proxy.

Board staff agree with Enersource's inclusion of the 4/12th's of the 2009 Shared Tax savings.

As a final implementation matter, Board staff notes that in addition to having two values for the GDP-IPI that will need to be calculated (one for distributors on a January 1st year, the other for those on a May 1st rate year), there will also be a need to have two calculations for the Return on Equity and Deemed Debt Rates, corresponding to the two rate periods. This can, however, be accommodated.

Deferral and Variance Accounts

Background

Deferral and Variance accounts are regulatory accounting mechanisms used for a variety of reasons to maintain fairness to ratepayers and regulated entities.

The Minister of Energy granted approval for electricity distribution companies to apply to the Board for recovery of Regulatory Assets, effective March 1, 2004. On February 5, 2004, the Board published notice of applications by 92 distribution utilities seeking to recover Regulatory Assets on an interim basis. This process was the Electricity Distributor Recovery of Regulatory Assets, Phase 1.

Phase 2 was the prudence review of the Regulatory Asset balances. As a first step in Phase 2, the Board reviewed the Regulatory Asset applications of Hydro One, Toronto Hydro, Enersource Hydro Mississauga and London Hydro. In addition to the decisions on the recovery of the amounts for each of these four distributors, the Board also assessed what would constitute the best evidence, forum and process to determine the reasonableness of Regulatory Asset amounts for the remaining distributors.

Following the Phase 2 prudence review of Regulatory Assets, the Board determined how the Regulatory Asset balances should be recovered from customers for the remaining distributors. The electricity distributors applied to the Board for their Phase 2 Regulatory Assets review concurrently with their 2006 EDR applications.

Subsequent to the above process the Board approved limited deferral and variance account disposition requests and account in 2008 and 2009 cost of service applications in anticipation of the completion of the Board's EDDVAR[2] Report released in July 2009.

Enersource filed its 2010 IRM3 application before the EDDVAR Report was issued.

For purposes of 2010 IRM applications, the EDDVAR Report required distributors to determine the value of their December 31, 2008 Group One Deferral and Variance account balances and determine whether the preset disposition threshold of $0.001 kWh using on the 2008 annual kWh consumption reported to the Board. Any distributor exceeding the preset disposition threshold was required to file a Deferral and Variance Account workform, and include proposed rate riders in its 2010 IRM Rate Generator for clearance of these account balances.

Board staff through an interrogatory requested that Enersource complete the Deferral Variance Account workform. The Enersource interrogatory response reported a net $15M credit balance for Group One accounts as at December 31, 2008. However Enersource further stated the balance of Group One accounts at the end of August 2009 is a $22M debit. As a result, Enersource has requested to delay the implementation of the EDDVAR Report until 2011.

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[2] Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)
July 31, 2009

Enersource identified the cause of this change as being primarily due to the change in the Global Adjustment sub-account ($7M debit at the end of 2008 rising to a $40M debit at the end of August 2009.)

Discussion and Submission

Issue: EDDVAR Clearance of 2008 Balances

Board staff notes that Enersource's interrogatory evidence identified that the preset disposition threshold of $0.001/kWh for Group One account balances at the end of 2008 was exceeded. The EDDVAR Report contemplates that this trigger the disposition of Group One account balances in the normal course of an application

Enersource has a large credit amount (excluding the global adjustment) owing back to customers as of December 31, 2008. Board staff believes that to delay the disposition of this balance by an additional year would be unfair to customers and would create further intergenerational inequity by deferring the over/underage.

Board staff believes that Enersource's request runs counter to the Board's EDDVAR Report which states that a systematic approach to the review and disposition of the deferral and variance accounts is desirable from the perspective of regulatory efficiency, predictability and transparency.

The construct of the Board's EDDVAR Report is consistent with the approach used by natural gas distributors. The volatility of these accounts is a well known and an understood occurrence.

What remains unclear to Board staff is the period over which Enersource would consider reasonable to refund this credit balance.

Issue: Global Adjustment

Enersource highlights an important element of concern for Board staff.

Global Adjustment ("GA") is the difference created between the IESO market purchase price for electricity and the settlement prices paid for contracted power.

In the setting of RPP prices the value of the GA for RPP customers is taken into consideration. In other words, the clearing of any related adjustment variances in the GA is reflected in the setting of the future price.

In the setting of GA for Non-RPP customers, the IESO estimates a monthly value to be charged. However each distributor is charged for the actual value of the GA. The difference between the estimated and actual value is captured in the distributor's 1588 GA sub-account.

According to Article 490 of the APH, the GA account is established for the purpose of recording the "net difference" in the GA attributable to non-RPP customers only. "Net difference" refers to the difference between the amount charged/credited by the IESO, host distributor or embedded generator based on the settlement invoice for the GA and amount billed to non-RPP customers for the GA. The GA arises due to a difference between the spot price charged by the IESO to market participants and the blended price paid by the IESO under the various contracts with electricity generators/suppliers.

GA is inversely related to spot price. When spot price declines, GA increases, and vice versa. In recent months, the spot prices have been soft, and as a result, balances have been building up in the GA account of the distributors.

The EDDVAR Report as well as the Board's Decision in EB-2009-0113 adopted an allocation of the GA sub-account balance based on kWh for non RPP customers by rate class. Traditionally this allocation would then be combined with all other allocated variance account balances by rate class. The combined balance by rate class would then be divided by the volumetric billing determinants (kWh or kW) from the most recent audited year end or Board approved forecast, if available. This process hence spreads the recovery or refund of allocated account balances to all customers in the affected rate class.

This method was factored on two premises; a) that the recovery/refund of a variance unique to a subset of customers within a rate class would not be unfair to the rate class as a whole and b) that the distributors' billing systems would not be able to bill a subset of customers within a rate class, without placing a significant burden to the distributor.

For these reason the Board's original Deferral Variance Account workform was modelled on this basis. However based on Enersource's evidence, there could be material unfairness to RPP customers within the affected rate classes.

Therefore Board staff suggests that a separate rate rider be established to clear the GA sub-account balance to Non-RPP customers within rate classes.

What remains unclear to Board staff is whether Enersource's billing system could accommodate that change within a reasonable timeframe.

In addition as of November 1, 2009 the "designated consumers" such as municipalities, hospitals, schools, colleges and universities are no longer eligible for RPP. What remains unclear to Board staff is how this event will affect the applicant's selection process for designating non-RPP customers going forward for purposes of applying the GA rate rider.

All of which is respectfully submitted