

**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 E-MAIL

February 12, 2010

Board Secretary
Ontario Energy Board
2300 Yonge Street, Ste. 2701
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Board Staff Submission for Coopérative Hydro Embrun; EB-2009-0132

Further to the Board's Procedural Order No. 3, dated February 4, 2010, please find attached Board staff's submission. Please forward the attached to Coopérative Hydro Embrun and all intervenors in this proceeding.

Yours truly,

Original Signed By

Christie Clark P. Eng.
Case Manager

Enclosure



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2010 ELECTRICITY DISTRIBUTION RATES

Coopérative Hydro Embrun

EB-2009-0132

February 12, 2010

Board Staff Submission Coopérative Hydro Embrun EB-2009-0132

Introduction

Coopérative Hydro Embrun Inc. (“Embrun” or the “Applicant”) is a licensed distributor of electricity providing service to consumers in its licensed service territory. Embrun filed an application with the Ontario Energy Board (the “Board”) on September 17, 2009 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 Embrun charges for electricity distribution, to be effective May 1, 2010 (the “Application”).

In Procedural Order No. 3, the Board ordered Board staff to file any submission that it may have on the Application by Friday February 12. This document provides Board staff’s submission on the following specific issues:

1. Working Capital Allowance
2. Asset Management
3. Energy Forecast
4. Customer Forecast
5. International Financial Reporting Standards
6. Regulatory Costs
7. Impact of the Implementation of the HST
8. Depreciation
9. Cost of Capital
10. Loss Adjustment Factors
11. Retail Sales Transmission Rates
12. Revenue-to-Cost Ratios
13. Smart Meter Rate Adder
14. Appropriateness of Proposed Deferral and Variance Account Balances for Disposition
15. Deferred PILs Deferral Account
16. Account 1588

1. Working Capital Allowance

Embrun has applied for a rate base of \$2,406,167 for 2010, which includes an allowance for working capital of \$438,431. A significant component of the working capital allowance (84%) is the 15% allowance on the \$2,448,370 cost of power.¹ Board staff asked Embrun for the derivation of the cost of power.² From the response it is clear that Embrun did not base its cost of power on a forecast of demand and energy being delivered to Embrun multiplied by the unit rates of the upstream components that comprise the cost of power. Embrun does not have forecasted delivery demands to make such a forecast. Embrun developed its forecasted upstream costs by applying the proposed rates and adders for transmission, low voltage, regulatory charges and energy costs to forecasted class volumes including losses. While this does not reflect the cost drivers, Board staff submits that Embrun's approach reflects cost consequences and results in an acceptable estimate for working capital purposes.

Board staff would like to point out that it has made submissions on both the determination of the forecasted RTS rates and the estimate of the loss adjustment factor. Any Board decision relating to these matters that is different from that which was used in the interrogatory response will require Embrun to revise the cost of power estimate in order to recast the working capital allowance in rate base.

2. Asset Management

Embrun is a very small utility with 27 km of circuits and 288 transformers. Board staff submits that a review of the plant condition for a system of this size should not be onerous. However, the evidence shows that 13 out of 25 outages for 2007 were a result of defective equipment.³ Embrun's responses to the Review of Assets Management Practices of Ontario Electricity Distributors Questionnaire indicate that there is little done by way of asset policy and strategy which possibly could help prevent failures.⁴ Board staff submits that perhaps a more proactive approach to asset management could result in equipment being maintained or replaced before failure. This would reduce the frequency of this type of outage.

¹ Exhibit 2 Tab 1 Schedule 1 Attachment 1

² Board staff Interrogatory 6

³ Exhibit 2 Tab 6 Schedule 1

⁴ Exhibit 2 Tab 4 Schedule 5 Section 4 of the Questionnaire

3. Energy Forecast

Embrun has used a regression model developed by Elenchus Research Associates (“ERA”) to forecast its demand and energy levels for 2009 and 2010.⁵ The model is a multivariate regression of monthly wholesale deliveries to Embrun against six variables; heating degree days (“HDD”), cooling degree days (“CDD”), full time employment in the Ottawa area, peak days, and two dummy variables to explain changes in energy use in December (Holiday Season) and summer. The period modeled was May 2002 to December 2008. The model was tested by back casting and comparing the model's results to actual deliveries for the years 2003 to 2008 inclusive. The model's predictive ability was measured through this back casting and the result is a mean absolute percent error of 2.2%.

Embrun forecasts its 2010 demand by applying normal weather established from the most recent ten year average for HDD and CDD from Ottawa International Airport (Macdonald-Cartier) to the regression model.

Board staff has two concerns about the forecasting method. First, Embrun does not have monthly rate class data which would allow them to model each rate class separately. Board staff submits that some customer classes may be more sensitive than others to factors such as weather or employment. By disaggregating by class, more accurate models might be developed reflecting unique class sensitivities. However, this is a data limitation and not a modeling error. ERA points out that most of Embrun's load is fairly homogenous with over 80% of total retail kWh sales being for the residential and GS<50 kW classes, and over 65% being for the residential class only. Board staff submits that despite the apparent homogeneity of the load, Embrun should commence collecting class specific monthly data to ensure a higher confidence in its future forecasts.

The second concern that Board staff has is with respect to the model's constant. The constant represents the base energy load from which additional load is built as the model's variables respond to their inputs. Board staff submits that the model's constant is not very stable.

ERA's report provides some statistics about the models variables. The constant has a t-statistic of 0.98, and a p-value of 0.333. The t-statistic is a measure of relative magnitude and in this case measures the estimate for the constant relative to its

⁵ Weather Normalized Distribution System Load Forecast – 2010 Test Year

standard error. Having a t-statistic of 0.98 indicates that the standard error in the estimate of the constant is greater than the constant, or to put it another way, there is a great deal of variability in the estimate of the constant. This fact is backed-up by the p-value, which indicates the likelihood that another value, zero, could also be used as a constant. In regression models a low p-value indicates that there is less likelihood that another value might be the true value. Typically p-values of <0.01 are considered to represent good estimates. Board staff submits that a value of 0.333 is not considered good.

The constant represents the base energy load from which additional load is built as the model's variables respond to their inputs. Thus, explaining in a simplified manner, as employment increases or temperature drops below 18°C , load will build above the base load for Embrun using ERA's model.

To test the model, Board staff took the position that perhaps the HDD and CDD values were defined from the wrong base temperature (which is sometimes referred to as the balance point). These two variables are derived weather variables which are used to help explain heating and cooling energy use. Typically as a rule of thumb, degree days are calculated using 18°C as the base. ERA used 18°C as the balance point in their model. There is now evidence that some jurisdictions use a different default base temperature for HDD. The UK's National Weather Service, Met Office, uses a base of 15.5°C .⁶

Board staff requested Embrun to redefine HDD using 14°C as the balance point and to redefine CDD using 23°C as the balance point.⁷ This resulted in a better constant with very little deterioration or improvement of the statistical relevance of the other variables. However, the model as a whole did not perform significantly better or worse than ERA's model. In fact, when back casting Board staff's model also had a mean absolute percent error of 2.2%.

While the predicted 2009 and 2010 weather normalized energy from the staff modifications was higher than that of ERA's, it was so by only 0.009% in 2009, and 0.012% in 2010.

Despite the two concerns, Board staff submits that these differences are not sufficient to warrant changing the forecast.

⁶ <http://www.metoffice.com/construction/pastdata4.html>

⁷ Board staff Interrogatory 9, and Board staff Supplemental Interrogatory 5

However, Board staff submits that with the advent of smart meters, better monthly class data can be developed, and with continued work to improve the constant through refining the balance points, Embrun could improve its forecasting ability.

4. Customer Forecast

Embrun was assisted by ERA in developing its customer forecast. Embrun has a large percentage of its customer base in the residential market. Except for the residential class, Embrun has not forecasted any customer growth. There has not been any growth in GS>50 kW, street lighting and unmetered scattered loads since 2005. GS>50 kW declined from 13 to 12 customers in 2007 and has remained there since. Also, in 2007 the GS<50 kW declined from 169 to 161 customers, and then increased to 162 in 2008 where the count has remained. Embrun is forecasting 162 GS<50 kW customers for 2010.

Growth in the residential customer count forecast is based on Canada Mortgage and Housing Corporation's ("CMHC") Housing Market Outlook for housing starts in the Ottawa metropolitan area. However, new residential customers may not all be from new construction, and the CMHC report is for housing starts and does not include vacant residences in move-in condition. Embrun showed that its customer growth rate, while not exactly that of CMHC's, did track CMHC's. Embrun is not forecasting as large a decline in the growth rate from 2008 to 2009 as CMHC. Embrun's forecast going into 2010 is a larger increase than CMHC. The impact from both forecasted years by Embrun results in more customer additions than forecasted by CMHC. Board staff estimates that for Embrun to actually change its forecast to reflect CMHC's predictions, then the forecast for customer additions in 2009 would be reduced from 44 to 42, and the forecast for 2010 would be reduced from 47 to 45; a total of four customers. Board staff however points out that both CMHC's and Embrun's forecasts have associated forecasting errors, the difference between the results of each forecast is small, and Embrun's forecast is more encompassing than just housing starts.

As a result, Board staff submits that, the customer forecast is reasonable given a stable non residential market, and a relatively small number of new residential connections which track the CMHC forecast.

5. International Financial Reporting Standards

Embrun forecasts \$15,000 per year for four years in Account 5630 – Outside Services for conversion to International Financial Reporting Standards ("IFRS"). In response to

Board staff's interrogatory, Embrun proposed to remove the costs from Account 5630 and use a deferral account.⁸ Board staff submits that this would be a more appropriate treatment for IFRS costs at this time.

6. Regulatory Costs

Throughout the application process, revisions were made to the estimate of regulatory costs as a result of changes to process from that originally envisioned by Embrun. For example, the original estimate included \$5,000 for an expert witness for an oral hearing but this amount was subsequently removed as a result of the Board proceeding by means of a written hearing.

Embrun is a very small utility with a general manager and two customer service representatives. As a result, it relies heavily upon consulting services for accounting and regulatory matters. The detail required in this cost of service application, and the diligence of parties contributed to cost increases. In response to a supplemental interrogatory Embrun has provided a final cost, including costs for future IRM applications of \$246,000, or \$61,500 for four years.⁹ This represents about 8% of Embrun's 2010 revenue requirement. Embrun has provided sufficient detail of the proposed regulatory costs in the interrogatory response to test the reasonableness of the component costs. The following table is a summary of Embrun's costs:

⁸ Board staff Interrogatory 13

⁹ Board staff Supplemental Interrogatory 3

First Round of IRs	
	\$
Consultants	
Drafting Evidence	80,000
Load Forecast	5,000
Revision ro Cost Allocation	5,000
Interrogatories	15,000
Written Submission	5,000
Total Consultants	<u>110,000</u>
Intervenor Costs	
22 hrs @ \$225	<u>5,000</u>
Other Costs	
Rate order	5,000
EDR Model	10,000
Total Other Costs	<u>15,000</u>
Total	
Total	<u><u>130,000</u></u>

Board Staff Supplemental Interrogatory 3	
	\$
2010 COS	
Drafting Evidence	80,000
Load Forecast	5,000
Revision ro Cost Allocation	5,000
Interrogatories	20,000
2nd Round of Irs	10,000
Argument-in-Chief	2,500
Review submissions	3,500
Final submission	5,000
Intervenor costs	20,000
Rate Order	10,000
Rate Maker Model	10,000
Total 2010COS Costs	<u>171,000</u>
IRM	
IRM (3 x 25,000)	<u>75,000</u>
Total Four Year Regulatory Costs	
Total	<u><u>246,000</u></u>

Board staff however notes that the Application as a whole was sometimes inconsistent, thereby requiring two rounds of interrogatories to clear up the record. The evidence was also sometimes lean, in that tables and calculations were provided with little or no explanation of their derivations. References at times were internal to Elenchus' RateMaker model and had no relevance to the Exhibit numbering of the Application.

Although intuitively the exhibits could be understood, this lack of explanation relating exhibits and tables, together with inconsistencies in reconciliations and lack of details of calculations slowed analysis and impaired the efficacy of the Application.

However, while the regulatory costs may seem high, Board staff also understands that Embrun has little internal resources to plan, develop, prepare, file, and defend an application, and so considerable time is required by a consultant to aggregate and understand the appropriate information for a filing. Because of this, Board staff is reticent to submit that the Board reduce the requested level of regulatory costs, but is adamant that clearer, better explained evidence could be developed in future cost of service applications.

7. Impact of the Implementation of the HST

The Ontario provincial sales tax (“PST”) (currently at 8%) and the Federal goods and services tax (“GST”) (currently at 5%) will be harmonized effective July 1, 2010, at 13%, pursuant to Ontario Bill 218 which received Royal Assent on December 15, 2009.

The PST is currently an incremental cost applied to the price of goods purchased by an electricity distributor and is included in a distributor’s OM&A expenses and capital expenditures. The PST is therefore included in the distributor’s revenue requirement and is recovered from ratepayers through the application of distribution rates.

When the PST and GST are harmonized, distributors will pay the HST on purchased goods and service but will now claim an input tax credit for the 8% that replaced the PST portion. The mechanics of HST as a value added tax means that the distributor will no longer incur that portion of the tax that was formerly applied as PST (i.e. the 8%) on goods purchased. However, the current rates as applied will continue to effect cost recovery as if the PST was still in place. If no action is taken, the distributor will realize a savings in the cost of goods purchased while applying rates which do not reflect those savings.

In response to an interrogatory, Embrun estimated that the PST included in the budget was approximately \$19,599 for OM&A.¹⁰ By using a 4 year average it estimated that PST in the capital budget would be about \$15,286.¹¹ When asked whether Embrun would agree with the establishment of a deferral account into which any savings arising

¹⁰ VECC Interrogatory 22 a)

¹¹ VECC Interrogatory 22 d)

from tax harmonization would be booked, Embrun said that it would comply with direction from the Board.¹²

Board staff submits that in total, there could be \$35,000 in savings from the introduction of the HST. This represents about 4.5% of the requested \$766,580 revenue requirement. Board staff suggests that the Board might consider directing Embrun to reduce its revenue requirement to reflect these estimated cost savings.

8. Depreciation

Board staff reviewed the depreciation calculation and found that Embrun has included \$4,320 in Account 1810 – Leasehold Improvements for two truck trailer boxes which are being used for the storage of equipment. Board staff could understand wanting to keep these cabs separate for the purposes of depreciation determination if they are fully depreciated, however, Embrun more appropriately should be including this cost in Account 1935 – Stores Equipment. The Accounting Procedures Handbook for Account 1935 states, “This account shall include the cost of equipment used for the receiving, shipping, handling, and **storage of materials** and supplies.” [Emphasis added] While it appears these assets are fully depreciated, it is important to account for assets appropriately for if an asset is placed in an incorrect account, it could then affect depreciation expenses, PILs and be misclassified and therefore misallocated in the cost allocation process for rate design. Board staff submits that the \$4,230 balance should be removed from Account 1810 and placed in Account 1935.

9. Cost of Capital

Embrun appeared to be applying for a capital structure that was 60% long term debt at 7.19%.¹³ In response to an interrogatory, Embrun stated that the exhibit had a typing error but it claimed that the RateMaker model was correct.¹⁴ Board staff submits that Embrun review its Application before it files a draft rate order to ensure that the capital structure is updated to the Board approved equity, long term debt, and short term debt as determined in the Board’s Decision in this Application.

¹² VECC Interrogatory 22 f)

¹³ Exhibit 5 Tab 1 Schedule 2

¹⁴ Board staff Interrogatory 18

10. Loss Adjustment Factors

Embrun filed for a total loss adjustment factor of 1.0676 based on a five year average as required by the filing guidelines.¹⁵ This total loss adjustment factor is based on a distribution loss factor of 1.0325 and a supply facility loss factor of 1.034.

Embrun had commissioned a line loss study by Stantec Consulting Ltd. The report was issued March 22, 2006. Between 2006 and 2007, Embrun undertook to implement the four recommendations contained in the report. Upon examining the loss factors after the system improvements, it becomes apparent that the distribution loss factors are reduced.¹⁶ In response to interrogatories, Embrun agreed that a three year average, which would eliminate the higher losses from prior to the system improvements, would be a more accurate representation of the losses.¹⁷ Board staff submits that the 3 year average loss factor is a more appropriate loss factor.

As calculated by Embrun the three year average loss factors should be:¹⁸

Distribution Loss Factor	1.0231
Supply Facility Loss Factor	1.034
Total Loss Factor	1.0579

11. Retail Transmission Service Rates

Embrun applied for Retail Transmission Service (“RTS”) Rates that were developed by adjusting the current RTS by a ratio that compares historical costs and RTS revenues from the period January 2008 to June 2009.¹⁹ Since historical costs were used, Board staff submits that this adjustment would not bring the RTS in line with current provincial Uniform Transmission Rates (“UTR”) charges. Board staff requested Embrun to recast its comparison using current UTS charges (i.e. the UTRs effective July 1, 2009) and RTS revenues.²⁰

¹⁵ Exhibit 8 Tab 3 Schedule 3 Attachment 1

¹⁶ Ibid

¹⁷ VECC Interrogatory 15 and Board staff Interrogatory 21

¹⁸ Board staff Interrogatory 21

¹⁹ Exhibit 8 Tab 3 Schedule 1 Attachment 1

²⁰ Board staff Interrogatory 23

Based on the Decision and Rate Order of the Board in the EB-2008-0272 proceeding, a Rate Order issued January 21, 2010 revised the UTRs effective January 1, 2010 as follows:

- Network Service Rate has increased from \$2.66 to \$2.97 per kW per month, an 11.7% increase over the July 1, 2009 level or 15.6% over the rate in effect prior to July 1, 2009;
- Line Connection Service Rate has increased from \$0.70 to \$0.73 per kW per month; and
- Transformation Connection Service Rate has increased from \$1.57 to \$1.71 per kW per month, for a combined Line and Transformation Connection Service Rates increase of 7.5% over the July 1, 2009 level or 5.2% over the rate in effect prior to July 1, 2009.

As a result of these changes in the UTR Board staff submits that the applicant's proposed rates and working capital requirement be revised to reflect the January 1, 2010 values.

12. Revenue-to-Cost Ratios

Through the interrogatory process, changes have been made to the original Application regarding operating costs and therefore PILs as well. However, Embrun has not updated its proposed rates or shown the resulting revenue-to-cost ratios ("R:C"). Board staff requested Embrun to state to what R:C target it would design its rates.²¹ In response Embrun provided its intentions which are shown in the table below. This table compares the 2006 EDR R:C to the proposed 2010 R:C, and lists the Board's target range.²²

Rate Class	2006 EDR R:C	Proposed R:C	Target Range
Residential	1.06	1.00 – 1.04	85 – 115
General Service <50 kW	0.91	0.91	80 – 120
General Service >50 kW	1.21	1.21	80 – 180
Unmetered Scattered Load	0.21	0.51	70 – 120
Street Lighting	0.50	0.60	80 - 120

²¹ Board staff Supplemental Interrogatory 6

²² Report of the Board *Application of Cost Allocation for Electricity Distributors*, EB-2007-0667

Embrun points out that the starting points for setting these rates are the Approved 2006 EDR R:C. It stated and showed in the interrogatory response that the movement of the R:C for both unmetered scattered load and street lighting moves the respective rates to 50% of the spread between the 2006 EDR R:C and the lower limit for their class. This approach reflects the Board's step-wise method to bring R:C into the range for street lighting. Board staff submits Embrun's proposal appears to be reasonable.

13. Smart Meter Rate Adder

Embrun requested to replace the smart meter rate adder of \$1.00 with a new adder of \$1.32 per month per metered customer. Board staff reviewed the calculation of the adder and found the cost of capital was incorrect. Through an interrogatory, Embrun re-submitted the calculation, correcting the capital costs.²³ The rate rider now being requested is \$1.33.

Embrun filed evidence in accordance with section 1.4 of the *Guideline G-2008-0002: Smart Meter Funding and Cost Recovery (the "Smart Meter Guideline")*, issued October 22, 2008.²⁴ Embrun is authorized for smart meter deployment under the amended Regulation pursuant to and in compliance with the London Hydro RFP process.

Embrun is not seeking approval for capital and operating costs incurred to date or in 2010 in this Application, but will track actual costs, and revenues received from the funding adder, in the established deferral accounts for review and disposition in a subsequent application.

Board staff submits that Embrun has complied with the policies and filing requirements of the Smart Meter Guideline. Actual smart meter expenditures will be subject to review when Embrun makes application to dispose of the account balances in a subsequent proceeding. Hence, Board staff takes no issue with Embrun's proposal to increase its smart meter funding adder to \$1.33 per month per metered customer.

14. Appropriateness of Proposed Deferral and Variance Account Balances for Disposition

Embrun is requested the disposition of its Group 1 and Group 2 account balances over a one-year period.

²³ Board staff Supplemental Interrogatory 4

²⁴ Exhibit 9 Tab 3 Schedule 1

The balances for the deferral and variance account filed by Embrun reconciled to the December 31, 2008 financial statements and the RRR filing.²⁵ However, in response to a request for Board staff's specific continuity schedule in the first round of interrogatories, Embrun provided a different set of deferral and variance account balances.²⁶ These balances were again revised in a supplemental interrogatory.²⁷ Board staff submits that as a result of these changes, the proposed balances for disposing are not those of the audited account balances. The difference between the original Application and the balances found in the second round of interrogatories is \$45,814, as determined and found in Column 6 Line 14 in the table below.

In order to assist the Board in assessing the extent of the changes and the impact on the customer, the following table is provided. This table contains the December 31, 2008 balances as they changed over the course of two rounds of interrogatories. In Column 1 are the balances from the Application.²⁸ Column 2 contains the balances from the first round of interrogatories. Column 3 gives the change as a result of the interrogatory response. In Column 4 are the balances from the second round of interrogatories. Column 5 shows the difference between the two interrogatories, and Column 6 shows the difference from the Application to Embrun's final request in the second round of interrogatories.

Line 12 is the total of the deferral and variance accounts. Line 13 is the sum of the smart meter deferral accounts and the deferred PILs Deferral account which are not to be cleared at this time. Line 14 is the balance remaining for disposing after the smart meter and deferred PILs balances have been removed.

²⁵ Board staff interrogatory 25

²⁶ Board staff interrogatory 26

²⁷ Board staff supplemental interrogatory 8

²⁸ Exhibit 9 Tab 1 Schedule 1 Attachment 1

Deferral and Variance Account Balances

Account	Balances, 2008-12-31					
	<i>Col. 1</i>	<i>Col. 2</i>	<i>Col. 3</i>	<i>Col. 4</i>	<i>Col. 5</i>	<i>Col. 6</i>
	App	IR 1	Change	IR 2	IR 1 - IR 2	IR 2 - App
1 1508; Other Reg Assets	3,410	5,809	2,399	3,410	(2,399)	-
2 1550; LV Variance	11,058	11,525	467	11,460	(65)	402
3 1555; Smart Meter	(16,074)	-	16,074	-	-	16,074
4 1556; Smart Meter	-	(16,070)	(16,070)	(16,070)	-	(16,070)
5 1562; PILs	(125,837)	-	125,837	-	-	125,837
6 1565; CDM	8,971	10,885	1,914	8,971	(1,914)	-
7 1566; CDM Contra	(8,971)	(10,885)	(1,914)	(8,971)	1,914	-
8 1580; RSVA _{WMS}	6,168	10,567	4,399	10,237	(330)	4,069
9 1584; RSVA _{NW}	(32,829)	(28,006)	4,823	(27,509)	497	5,320
10 1586; RSVA _{CONN}	(51,472)	(45,425)	6,047	(44,778)	647	6,694
11 1588; RSVA _{POWER}	60,982	101,660	40,678	90,311	(11,349)	29,329
12 Total	<u>(144,594)</u>	<u>40,060</u>	<u>184,654</u>	<u>27,061</u>	<u>(12,999)</u>	<u>171,655</u>
13 Adj SM & PILs	(141,911)	(16,070)	125,841	(16,070)	-	125,841
14 Total Requested Balance to Dispose	<u>(2,683)</u>	<u>56,130</u>	<u>58,813</u>	<u>43,131</u>	<u>(12,999)</u>	<u>45,814</u>
15 Group 1	(6,093)	50,321		39,721		
16 Group 2	3,410	5,809		3,410		
17 Commodity kWh	29,503,388	29,503,388		29,503,388		
18 Group 1 \$/kWh	(0.00021)	0.00171		0.00135		
19 Group 2 \$/kWh	0.00012	0.00020		0.00012		

The Board in its Report on Electricity Distributors' Deferral and Variance Account Review Initiative ("EDDVAR Report") has established a unitized rate threshold of \$0.0001 per kWh below which these accounts should not be disposed in a cost of service application.²⁹ The unitized Group 1 and Group 2 account balances are shown in lines 18 and 19. Board staff notes that based on these unitized balances, the disposition of the Group 1 and Group 2 account balances have been triggered.

Board staff notes that the final proposed balances for disposition no longer reconcile with previously audited balances nor with Embrun's RRR filings. Board staff has reviewed the balances and notes that the changes do result in material differences. Board staff is mindful of the importance of a timely disposition of deferral and variance account balances and does not believe that the disposition should be delayed. Board staff submits that the Board consider approving the proposed deferral and variance account balance disposition rate riders.

²⁹ Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative, EB-2008-0046, July 31, 2009

Were the Board to have any concerns about these adjustments, Board staff submits that the Board might consider declaring the rate riders interim until the revised balances can be brought forward in a future application and supported by a third party audit.

The following relate to specific deferral and variance accounts.

15. Deferred PILs Account

Embrun proposed to clear a credit balance of \$127,209 in Account 1562 – Deferred Payments in Lieu of Taxes.³⁰ The Board has commenced a proceeding to review the deferred PILs, EB-2008-0381. In response to this Board staff Interrogatory, Embrun proposed to remove this account from the list of accounts to be cleared at this time. Board staff submits that this withdrawal is appropriate.

16. Account 1588

In response to a Board staff interrogatory, Embrun pointed out two options to dispose of the global adjustment sub-account balance.³¹ The first option allocates the GA to classes based on the non-RPP customers in each class, but then determines a single rate for each class which all customers, RPP and non-RPP are charged. The second option allocates the GA balance in the same manner as the first option but a separate rider is determined for non-RPP customers only. Option 1 may be employed if the distributor can show that there is no material unfairness.

Embrun has proposed to employ the first option. To support this it has provided an impact analysis.³² The following table summarizes the impacts from that analysis:

	<i>Col. 1</i>	<i>Col. 2</i>	<i>Col. 3</i>	<i>Col. 4</i>	<i>Col. 5</i>
Class	Total Bill (\$)	Option 1 (\$)	Option 1 (%)	Option 2 (\$)	Option 2 (%)
Residential	100.25	0.23	0.2	2.65	2.6
GS<50 kW	286.40	0.28	0.1	7.59	2.7
GS>50	3,435.25	11.04	0.3	0.26	0.0

³⁰ Exhibit 9 Tab 1 Schedule 1 Attachment 1

³¹ Board staff Interrogatory 27

³² Ibid

As of November 1, 2009 the Municipalities, Universities, Schools and Hospitals (“MUSH”) sector and other designated institutional customers that remained as RPP customers were required to switch to non-RPP customer status.³³

Board staff has confirmed with Embrun that it has the capability to separate RPP customers from non-RPP customers, and that it also could separate MUSH customers in its billing system.³⁴

Board staff suggests that the Board may wish to consider establishing a separate rate rider for the disposition of the global adjustment sub-account balance. The rate rider would apply prospectively to non-RPP customers. Board staff submits that recovering the global adjustment sub-account balance solely from non-RPP customers would be more reflective of cost causality since it was that group of customers that were undercharged by the distributor in the first place. Board staff notes that Embrun’s current billing system would be capable to effect such a change, but incremental costs may be incurred.

Alternatively, the Board may wish to consider, as suggested by Embrun, the recovery of the allocated global adjustment sub-account balance from all customers in each class. This approach would recognize the customer migration that might occur both away from the non-RPP customer group and into the non-RPP customer group.

In addition to the decision on whether a separate rate rider should be established for the disposition of the global adjustment sub-account, the Board must decide on the time period over which the rate riders should apply. As previously noted, customer migration might occur in the low volume group. For this group of customers, there would be a benefit to dispose of the global adjustment sub-account balance over a relatively short period of time in order to reduce inter-generational inequities. Board staff submits that a disposition period no longer than one year would be appropriate. These balances have been accumulating over the last four year period and to delay immediate action is not in the customer’s best interest. Board staff recognizes that some volatility in electricity bills *may* result. That aside, Board staff believes that a one year disposition period would be in the interest of all parties. Hence, Board staff agrees with Embrun’s proposal of a one year rate rider.

³³ O. Reg. 95/05 of the *Ontario Energy Board Act, 1998*

³⁴ Board staff Supplemental Interrogatory 9

Board staff therefore submits that In order to reduce inter-generational inequities that the disposition period for all Group 1 and 2 accounts should not exceed one year.

All of which is respectfully submitted.