EB-2009-0132

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF applications by Coopérative Hydro Embrun for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2010.

BEFORE: Paul Sommerville
Presiding Member

DECISION

March 19, 2010

BACKGROUND

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) (the "Act"), seeking approval for changes to the rates that Embrun charges for electricity distribution, to be effective May 1, 2010.

Embrun is one of over 80 electricity distributors in Ontario regulated by the Board. In 2006, the Board announced the establishment of a multi-year electricity distribution rate-setting plan for the years 2007-2010. In an effort to assist distributors in preparing their applications, the Board issued the Filing Requirements for Transmission and Distribution Applications on November 14, 2006. Chapter 2 of that document, as amended on May 27, 2009, outlines the filing requirements for cost of service rate applications, based on a forward test year, by electricity distributors.

On January 29, 2009, the Board indicated that Embrun would be one of the electricity distributors to have its rates rebased for the 2010 rate year. Accordingly, Embrun filed a cost of service application based on 2010 as the forward test year.

The Board assigned the application file number EB-2009-0132 and issued a Notice of Application and Hearing on October 6, 2009. The Board approved the intervention and cost eligibility requests from two parties: the School Energy Coalition ("SEC"); and the Vulnerable Energy Consumers Coalition ("VECC"). No letters of comment were received by the Board.

Procedural Order No.1 was issued on November 4, 2009. The Board made provision for written interrogatories and indicated that it would determine the next steps upon review of the interrogatory responses. Interrogatory responses were received by December 11, 2009.

On January 5, 2010 the Board issued Procedural Order No. 2 which made provision for supplemental interrogatories of a clarifying nature on the existing interrogatory responses. Responses were received on January 27, 2010.

Procedural Order No. 3 was issued on February 4, 2010 making provision for submissions. Embrun's Final Argument (the "Reply") was received on February 16, 2010.

The full record is available at the Board's offices. The Board has chosen to summarize the record to the extent necessary to provide context to its findings.

THE ISSUES

The following issues were raised in the submissions of Board staff and intervenors, and are addressed in this Decision:

- Rate Base;
- Energy Forecast;
- Customer Forecast;
- Operating Costs;
- Cost of Capital;
- Rate Design; and
- Deferral and Variance Accounts Review and Disposition.

RATE BASE

Of the rate base components, the issues that came to light in the application were the proper accounting of assets, the determination of the working capital allowance, and asset management.

Accounting of Assets

In response to an interrogatory, Embrun stated that it had recorded in Account 1810 – Leasehold Improvements the costs of two truck trailer boxes being used to store equipment.[1] Board staff submitted that it would be more appropriate to record these costs in Account 1935 – Stores and Work Equipment.[2] Embrun agreed that they would move the asset balance to Account 1935, as well as the depreciation.[3] In Reply,

[1] Board staff Interrogatory 3
[2] Board staff Submission page 9
[3] Final Argument p. 19

Embrun submitted Table #6 showing the details of the depreciation for 2010; however, the costs of the assets were not transferred to Account 1935.[4]

Working Capital Allowance

The issue identified by Board staff regarding the working capital allowance ("WCA") relates to the WCA on the 2010 estimate for the cost of power ("COP"). To determine the forecast COP, Embrun used the forecast sales by customer class rather than forecast deliveries to Embrun's distribution system. While using forecast delivery volumes and costs is a more appropriate means to forecast, Board staff concluded that Embrun's proposal was an acceptable estimate.[5]

Since both the upstream costs and the loss factors are issues which are decided below in their own respective sections, Board staff pointed out that any Board decision that affects the upstream costs (transmission, LV, regulatory levees and energy costs) and loss adjustment factors, should be taken into consideration when determining the COP and WCA.

VECC submitted that a lead-lag study should be filed in Embrun's next rebasing application to assess the appropriateness of estimating the working capital as 15% of both the OM&A expenses and the COP.[6] VECC argued that the results of such a study may show that the 15% approach bears no relationship to the actual working cash requirement for Embrun.

Embrun objected to VECC's argument that a lead-lag study should be filed. Embrun pointed out VECC's argument would also hold for a lead-lag study as well, since the results of lead-lag study based on history may bear no relationship to the actual costs incurred in the test year.[7]

Embrun also pointed out that it would not be reasonable for a small distributor like Embrun to incur the expense of a lead-lag study when the Board has determined that the 15% allowance is acceptable.[8]

Embrun submitted that subject to the Board making changes to the COP or losses, that the working capital submitted by Embrun be approved.

[4] Final Argument p. 20
[5] Board staff Submission p. 2
[6] VECC Final Argument Para. 2.11
[7] Final Argument page 10
[8] Ibid

Asset Management

In its submission, Board staff noted that Embrun's evidence indicated that little is done by way of asset policy and strategy which could help reduce the number of failures such as those that occurred in 2007. Board staff suggested that a more proactive approach might result in equipment being maintained or replaced before failure. [9]

Embrun pointed out that it is a small distributor and as such, it is well informed of its system condition and feels that an official asset plan is not required. Embrun also noted that in 2006 and 2008, there were no interruptions due to equipment failure. Embrun stated that outages are bound to happen on occasions but Embrun's system is reliable and well maintained.

Embrun did agree with Board staff that a more proactive approach might help, and stated that it is committed to working towards improving its assets management practices in a cost efficient manner. [10]

Board Findings

Accounting of Assets

Embrun agreed to transfer the two truck trailer boxes from Account 1810 – Leasehold Improvements to Account 1935 – Stores and Work Equipment. The Board directs Embrun to give effect to this undertaking.

Determination of Working Capital Allowance

The Board has concerns respecting the Applicant's methodology in developing its working capital allowance. The Applicant's methodology does not appropriately take into account the upstream costs related to transmission rates, low voltage rates, regulatory levies, and energy costs as well as the loss adjustment factors. The Board directs Embrun to determine the COP component of the WCA using the transmission rates effective January 1, 2010, and distribution losses based on a three-year average rather than a five-year average.

With respect to the issue of whether the Board should direct Embrun to conduct a lead-lag study in Embrun's next rebasing application, the Board expects to initiate a generic consultation to examine working capital methodologies in advance of Embrun's next cost of service filing. Accordingly the Board will not require Embrun to perform its own lead lag study at this time.

[9] Board staff Submission p. 2
[10] Final Argument p. 11

Asset Management

The Board, in carrying out its responsibilities under the Act, is guided by the objective of protecting the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service. As such, a fundamental obligation of the distributor is to ensure that electricity is delivered in a safe and reliable manner. Embrun has indicated that it is focused on this obligation and does what is reasonably required to ensure that its distribution system is robust and reliable. The Board is satisfied that the company is focused on this aspect of its operations but will require it to demonstrate at its next cost or service proceeding that it has developed a programmatic and proactive approach to ensuring reliability of its system.

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. 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.

In its submission, Board staff noted two issues with the development of Embrun's forecast. The first issue was that Embrun did not have the monthly data by class to model each rate class separately. Board staff submitted that some customer classes may be more sensitive than others to factors such as weather or employment. However, Board staff found this to be a data limitation that cannot be cured at this point, but will likely be overcome in the future as smart meter data becomes available.

The second issue was that Board staff found the intercept in the model to be weak, and tested the model through interrogatories. The interrogatories requested that the model be modified by using different CDDs and HDDs which were determined using different reference points Although these changes improved the intercept's performance, they did not result in a significant difference in the forecast. Board staff submitted that the forecast did not need to be changed. [11]

[11] Board staff Submission p. 3 – 4

Board staff further submitted that with class-specific monthly smart meter data, Embrun could improve the model's constant through a refinement of the balance points.[12]

VECC pointed out that the forecast is based on total weather normalized purchases, and not individual class deliveries. VECC stated that different customer classes have different weather responses. VECC also pointed out that modeling using weather as a variable for total purchases implicitly and inappropriately assigns weather sensitivity to the street lighting and unmetered scattered loads ("USL") classes.[13]

VECC also suggested a number of improvements to the modeling that it felt appropriate which could increase the robustness of the forecast. However VECC also noted that the loss factor implicit in the forecast is the 2008 loss factor and is the lowest for any of the previous 5 years.[14]

VECC concluded that the customer class load forecast is probably the most reasonable given the identified limitations.[15]

In addressing the non-weather sensitive loads that were modeled as weather sensitive, Embrun indicated that it does not have monthly data for these classes, and that together they comprise merely 1.6% of the total load.[16]

Embrun also noted that both Board staff and VECC submitted that the forecast was reasonable.[17]

Board Findings

The Board acknowledges the stated limitations of the Applicant's methodology with respect to its inability to differentiate between the classes' responses to weather and employment is a deficiency. However, the Board does not consider that deficiency to be significant enough to undermine the robustness of the forecast. The Board will therefore accept as reasonable the forecast provided by Embrun. The Board notes that with the advent of smart metering, the deficiencies identified by Board staff and VECC could be overcome and expects Embrun to further analyze the effect of these variables at the rate class level once data becomes available.

[12] Board staff Submission p. 5
[13] VECC Final Argument Para. 3.4
[14] VECC Final Argument Para. 3.5
[15] VECC Final Argument Para. 3.6
[16] Final Argument p. 13
[17] Ibid

CUSTOMER FORECAST

Embrun was assisted by ERA in developing its customer forecast. Except for the residential class, Embrun has not forecasted any customer growth. Embrun indicated that there has not been any growth in the GS>50 kW, street lighting and unmetered scattered load rate classes since 2005. The GS>50 kW declined from 13 to 12 customers in 2007 and has remained at that level 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 customers in the GS<50 kW rate class for 2010.[18]

Board staff reviewed the evidence for the forecast and submitted that the customer forecast is reasonable.[19]

Board Findings

The Board is satisfied that Embrun's customer forecast is reasonable.

OPERATING COSTS

Submissions were made on the following Operating Costs:

- International Financial reporting Standards;
- Regulatory Costs;
- PST/HST; and
- Employee Costs.

International Financial Reporting Standards

Embrun included $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 record the costs in a deferral account.[20]

Regulatory Expenses

In its submission, Board staff noted the increase in regulatory costs from the original estimate of $125,000 to $246,000 stated in response to Board staff’s supplemental

[18] Exhibit 3 Tab 1 Schedule 1: Weather Normalized Distribution System Load Forecast – 2010 Test Year, April 23, 2009
[19] Board staff Submission p. 5
[20] Board staff Interrogatory 13

interrogatory #3. Embrun proposed to recover these regulatory costs over a four year period. This amounts to $61,500 per year.

Board staff also submitted that Embrun has only a general manager and two customer service representatives for staff, and as such relied heavily upon consultants for regulatory services.[21]

VECC also noted that regulatory expenses increased from $120,000, as represented in Board staff interrogatory 12 to $246,000 as found in Board staff Supplemental Interrogatory 3. VECC pointed out that just over half of the increase was for the costs related to Incentive Rate Mechanism applications that was not included in the response to Board staff interrogatory 12. VECC, however, accepted the increase.[22]

Both Board staff and VECC commented on the quality of the evidence being lower than expected, that in some areas it was difficult to understand due to the lack of explanations and inconsistency in reconciliations.

Embrun replied that regulatory expenses are necessary expenses.

Embrun conceded that their original estimate was, as characterized by VECC, “optimistically low.” It pointed out that greater costs were required due to additional work to deal with the detail of the application and the diligence of the parties. Embrun also stated that additional costs were needed to address revisions to the filing requirements, June 30, 2009 and the EDVAAR report. Embrun also noted the additional costs associated with French translation.[23]

Embrun also indicated that the revenue requirement needs to be adjusted to include the Board’s annual assessment costs of $5,300. This results in an annual expense of $66,800.

With regards to quality of the evidence, Embrun pointed out that the interrogatories that were submitted could have been clearer as well.

Harmonized Sales Tax

The Ontario provincial retail 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.

[21] Board staff Submission p. 6
[22] VECC Final Argument Para. 4.6
[23] Final Argument p. 14

Unlike the GST, the PST is included as an OM&A expense and is also included in capital expenditures. When the GST and PST are harmonized, corporations would see a reduction in OM&A expenses and capital expenditures.

In response to an interrogatory from VECC, Embrun estimated that the PST included in the budget was $19,599 for OM&A and about $15,286 for capital on an annualized basis. [24] In total, Embrun estimated that the PST included in the revenue requirement for 2010 was about $35,000.

VECC submitted that an appropriate reflection of the mid-year implementation of the HST in 2010 would be to remove ½ of the estimated amount.

VECC further suggested that Embrun establish a variance account to record the difference between the actual and estimated amounts.

In its reply submission, Embrun indicated that the estimated amounts for PST included in the revenue requirement were incorrect. First, the PST amount for OM&A was based on an estimate of goods and services while PST is not paid on services. Second, Embrun claimed that there was no PST amount included in the budget.

Embrun also agreed that the PST should be removed for both types of expenditure and that the appropriate amount to be removed from the revenue requirement should be based on the payments made in the latter half of 2010 with 50% being a reasonable estimate for the OM&A expenses and 25% for rate base to reflect the half-year rule. However, to simplify matters and ensure that ratepayers will not overpay, Embrun proposed to remove 100% of the PST for both capital and operating expenses in the test year. Embrun argued that this would have the added benefit of eliminating the need for a variance account and subsequent disposition of excess payments. With no variance account, Embrun submitted that it would avoid the cost of external accountants required to maintain it.

Embrun’s revised estimate for PST was $750 for OM&A and $7,643 for Capital.

Employee Costs

In response to an interrogatory, Embrun reduced its projected employee costs for 2010 found in Exhibit 4, Tab 4, Schedule 1, Appendix 1 by an amount of $8,208.[25] Embrun made it clear that the cost shown in the table was not included in its 2010 Total OM&A

[24] Board staff Submission p. 8
[25] VECC interrogatory #11

Expenses and therefore was not included in the proposed revenue requirement. Consequently, Embrun submitted that there is no need to adjust the revenue requirement[26].

Board Findings

International Financial Reporting Standards

The Board in its Report concerning IFRS has made provision for the establishment of a deferral account for distributors for incremental one-time administrative costs related to the transition to IFRS.[27] This account is exclusively for necessary, incremental transition costs, and is not to include ongoing compliance costs or impacts on revenue requirement arising from changes in the timing of the recognition of expenses. The Board will therefore approve Embrun's proposal to remove the incremental one-time costs from Account 5630 Outside services Employed and record these costs in a deferral account for disposition at a later date.

Regulatory Expenses

The Board is concerned with the overall size of the regulatory expenses, but recognizes that Embrun has few internal resources and must rely on consulting services at this stage. The Board expects that the Embrun in subsequent applications will be able to manage this process much more effectively and will be able to reduce its regulatory costs significantly. This year's application should be a learning experience which will enable Embrun's staff to substantially complete rate applications in subsequent years. This proceeding did need to be as long as it was in order to ensure the completeness of the record. The Board notes the lack of consistency and clarity in the originally filed evidence and the interrogatories and the responses. The Board expects all parties to do better next time.

The Board will accept Embrun's regulatory expenses forecast and will authorize the recovery of an expense of $267,200 amortized over 4 years. (i.e. $66,800 per year).

PST/HST

The Board finds that Embrun's estimates for the cost level of PST in its OM&A and capital expenditures ("CAPEX") are quite low. The Board is not convinced that a deferral account is not needed.

[26] Final Argument p. 16

[27] Report of the Board *Transition to International Financial Reporting Standards July 28, 2009 EB-2008-0408 p. 43, Article 8.2*

The Board notes that when the PST and GST are harmonized, distributors will pay the HST on purchased goods and services but will now claim an input tax credit ("ITC") for the PST portion. Therefore, the distributor will no longer incur that portion of the tax that was formerly applied as PST.

The Board feels that the establishment of a deferral account to record the amounts after July 1, 2010 and until Embrun's next cost-of-service rebasing application is warranted. The Board therefore directs that, beginning July 1, 2010, Embrun shall record in deferral account 1592, (PILs and Tax Variances, Sub-account HST / OVAT ITCs), the incremental ITC it receives on distribution revenue requirement items that were previously subject to PST and have become subject to HST. Tracking of these amounts will continue in the deferral account until the effective date of Embrun's next cost of service rate order.

The Board further finds that the OM&A expenses and CAPEX proposed by Embrun in its Final Argument be increased for the estimates for PST.

Employee Costs

With respect to Employee costs, the Board will accept Embrun's statement that the $8,300 reduction arising as a result of an interrogatory from VECC is already reflected in the revenue requirement.

COST OF CAPITAL

In February 2009, the Board commenced a consultative on the cost of capital which culminated in its report of December 11, 2009.[28] The parameters for the cost of capital were updated in a letter dated February 24, 2010. [29]

In its reply submission, Embrun indicated that all components of its capital structure will be updated to reflect the Board approved equity, long term debt, and short term debt in accordance with the Board's recent Cost of Capital Report issued on February 24, 2010.

[28] Report of the Board on the *Cost of Capital for Ontario's Regulated Utilities,* December 11, 2009
[29] Letter of the Board: *Re: Cost of Capital Parameter Updates for 2010 Cost of Service Applications,* February 24, 2010

Board Finding

The Board accepts the Applicant's proposal and directs Embrun to review and update the components of its capital structure to reflect the Board's findings on the Cost of Capital.

RATE DESIGN

Loss Adjustment Factor

The loss adjustment factor ("LAF") submitted in Embrun's application was based on an average of the most recent five years. Board staff pointed out that between 2006 and 2007, Embrun undertook to implement four recommendations from a loss study which resulted in distribution losses being lower than in prior years. Board staff submitted that a three year average would therefore be more appropriate.[30] VECC also supported the use of a three year period to determine the LAF.[31]

Embrun in Reply, agreed to use a three year average for the LAF. [32]

Retail Transmission Service Rates

Embrun applied for an adjustment to its Retail Transmission Service Rates ("RTS") rates to reflect a comparison between its RTS historical revenue and historical wholesale transmission costs for the period January 2008 to June 2009.

VECC submitted that the proposed rates appearing in Board staff Interrogatory 23 should be accepted by the Board. These values were based on the July 1, 2009 Uniform Transmission Rates ("UTR"s).

Board staff submitted that the UTRs effective January 1, 2010 flowing from the Board's Decision and Rate Order in proceeding EB-2008-0272 should be used instead.[33]

Revenue to Cost Ratios

In its application, Embrun filed a 2010 cost allocation study which calculated the revenue-to-cost ("R:C") ratios based on 2009 rates. Concerns were raised over the fact that R:C ratios based on 2010 costs and rates were not available for examination.

[30] Board staff Submission p. 10
[31] VECC Final Argument Para. 8.1
[32] Final Argument p. 21
[33] Board staff Submission p. 11

In its submission, Board staff pointed out that it requested Embrun to provide the R:C ratios that Embrun would be seeking in it final rate proposal.[34] Based on this response and other evidence, Board staff submitted the following table:

Rate Class	**2006 EDR R:C[35]**	**Proposed R:C[36]**	**Target Range[37]**
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	70 - 120

Embrun also stated and showed that the movement of the R:C ratio for both unmetered scattered load and street lighting adjusts the respective ratios to 50% of the spread between the 2006 EDR R:C and the lower limit for their class. It further stated that this approach reflects the Board's step-wise method to bring R:C ratios into the target range for street lighting.

Board staff noted that Embrun's starting point for setting rates was the Approved 2006 R:C ratios.

VECC generally agreed with the direction the R:C ratios were moving, but did not agree that the starting point should be the 2006 EDR.[38]

VECC also had concerns that Embrun did not calculate the R:C ratios using allocated service revenue requirement by class and comparing them to the proposed distribution revenues and estimated miscellaneous revenues by class. Instead, Embrun compares the allocated base revenue requirement to the distribution revenues by class.[39]

[34] Board staff Supplemental Interrogatory 6
[35] Ibid
[36] Ibid
[37] Report of the Board Application of Cost Allocation for Electricity Distributors, EB-2007- 0667
[38] VECC Final Argument para. 6.3
[39] Ibid

VECC submitted that the starting point for the R:C ratios should be the current rates increased uniformly so that they collect the revenue requirement. VECC further submitted that the revenue requirement to be used is the class allocated service revenue requirement, with the R:C ratio based on distribution rates and miscellaneous revenues by class.

Embrun argued that in its view, the only acceptable starting point is the last approved R:C ratios.

Embrun agreed in principle with VECC's argument that the R:C ratios should be based on the service revenue requirement. Embrun, however, noted that the miscellaneous revenues are so small compared to the distribution revenue that the issue is immaterial. To prove this point, a table was provided in Embrun's Reply showing the results from the two different methods.[40]

Monthly Service Charge

Embrun's general approach to the monthly service charge is to maintain the existing fixed/variable split. There were two exceptions. First, with respect to the residential class, where to do so would result in a service charge above the maximum in the Board's Guidelines. Second, with respect to the USL class where maintaining the split results in a monthly charge below the minimum.[41]

VECC pointed out that Embrun agreed to exclude the LV costs in determining the fixed/variable split, which in their submission is consistent with the cost allocation method.[42]

Smart Meter Rate Adder

Embrun has requested to replace its smart meter rate adder of $1.00 with $1.32. Embrun also stated that all smart meters have been installed in their service area.

Board staff pointed out that after corrections to the adder calculation the adder should be $1.33. Board staff submitted that it had reviewed the smart meter programme and adder determination for compliance with Board policy. Embrun agreed with the $1.33 rate adder.[43]

[40] Final Argument p. 23
[41] Report of the Board Application of Cost Allocation for Electricity Distributors, EB-2007- 0667
[42] VECC Final Argument para. 7.2
[43] Final Argument p. 24

Board Findings

Loss Adjustment Factors

The Board notes that Embrun has agreed to use the three-year average for the derivation of the LAF and the Board directs Embrun to do so.

Retail Transmission Service Rates

On July 22, 2009 the Board issued an amended "Guideline for *Electricity Distribution Retail Transmission Service Rates*" ("RTSR Guideline"), which provided electricity distributors with instructions on the evidence needed, and the process to be used, to adjust RTSRs to reflect the changes in the UTRs effective July 1, 2009. The Board set as a proxy at that time an increase of 3.5% for the Network Service Rate and reduction of 2.2% for the combined Line and Transformation Connection Service Rates. The Board also noted that there would be further changes to the UTRs in January 2010. The objective of resetting the rates is to minimize the prospective balances in deferral accounts 1584 and 1586.

On January 21, 2010, the Board approved new UTRs effective January 1, 2010. The new UTRs were 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.

The Board finds that Embrun has provided a reasonable analysis of its RTS revenue and wholesale transmission costs and accepts the methodology used by Embrun to reset it RTSRs. However, the Board directs Embrun to update its RTSRs to reflect the new UTRs effective January 1, 2010, and accordingly reflect the revised RTSRs in its draft Rate Order.

Revenue to Cost Ratios

The Board has set a policy that the R:C ratios should be based on the service revenue requirement by class. The Board directs Embrun to set the ratios accordingly when preparing the draft rate order.

The Board accepts the company's proposals for the respective R:C ratios by class.

Monthly Service Charge

The Board agrees with Embrun's general approach to maintain the existing fixed/variable split with the exception of circumstances where doing so would result in a service charge above the maximum or below the minimum established in the Board's Guidelines. The Board will therefore, subject to this proviso, approve Embrun's proposed monthly service charges. The Board is, however, of the opinion that the derivation of the class monthly service charge should not include the low voltage rate. The Board directs Embrun to exclude the LV charges from the monthly service charge.

Smart Meter Rate Adder

Embrun proposes a utility-specific smart meter funding adder of $1.33 per metered customer per month. The Board approves the funding adder as proposed by Embrun. This new funding adder will be reflected in the Tariff of Rates and Charges. Embrun's variance accounts for smart meter program implementation costs, previously authorized by the Board, shall also be continued.

The Board notes that the smart meter funding adder of $1.33 per metered customer per month is intended to provide funding for Embrun's smart metering activities in the 2010 rate year. The Board has not made any finding on the prudence of the proposed smart meter activities. This includes any costs for smart meters or advanced metering infrastructure whose functionality exceeds the minimum functionality adopted in O. Reg. 425/06, or costs associated with functions for which the Smart Metering Entity has the exclusive authority to carry out pursuant to O. Reg. 393/07. Such costs will be considered at the time that Embrun applies for the recovery of these costs.

Introduction of MicroFIT Generator Service Classification and Rate

Ontario's Feed-In Tariff (FIT) program for renewable energy generation was established in the Green Energy and Green Economy Act, 2009. The program includes a stream called MicroFIT, which is designed to encourage homeowners, businesses and others to generate renewable energy with projects of 10 kilowatts (kW) or less.

In its EB-2009-0326 Decision and Order, issued February 23, 2010, the Board approved the following service classification definition, which is to be used by all licensed distributors:

> "microFIT Generator: This classification applies to an electricity generation facility contracted under the Ontario Power Authority's microFIT program and connected to the distributor's distribution system."

On March 17, 2010, the Board approved a province-wide fixed monthly charge of $5.25 for all electricity distributors effective September 21, 2009.

As part of its draft Rate Order, Embrun is to identify the MicroFIT Generator service classification on its Tariff of Rates and Charges and include the currently approved monthly service charge of $5.25.

DEFERRAL AND VARIANCE ACCOUNTS

The Report of the Board on Electricity Distributors' Deferral and Variance Account Review Report (the "EDDVAR Report") provides that at the time of rebasing, all account balances should be disposed of unless otherwise justified by the distributor or as required by a specific Board decision or guideline. The Board also indicated that the results of the proceeding to review PILs (EB-2008-0381) will inform its policies on the disposition of balances in the PILs accounts 1562, 1563 and 1592.

Embrun is requesting the disposition of the account balances as at December 31, 2008, plus projected interest to April 30, 2010 shown in the table below. The net balance is a debit balance of $28,241 which Embrun proposed to recover from ratepayers over a one year period.[44]

[44] Final Argument p. 25 - 26

Account Number and Description	Total Claim ($)
1508 - Other Regulatory Assets	3,448
1518 - Retail Cost Variance Account - Retail	0
1525 - Misc. Deferred Debits 1525	0
1548 - Retail Cost Variance Account - STR	0
1550 - LV Variance Account 1550	11,603
1580 - RSVA - Wholesale Market Service Charge	10,355
1582 - RSVA - One-time Wholesale Market Service	0
1584 - RSVA - Retail Transmission Network Charge	(27,858)
1586 - RSVA - Retail Transmission Connection Charge	(45,342)
1588 - RSVA - Power (excluding Global Adjustment)	91,269
1588 - RSVA - Power (Global Adjustment)	8,550
1590 - Recovery of Regulatory Asset Balances	(23,784)
Total Claim	28,241

Board staff pointed out that the balances changed over the course of the proceeding and that the final amounts did not reconcile with Embrun's financial statements or the RRR filings.[45] Board staff also submitted that; were the Board to have any concerns about these adjustments 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.[46]

Account 1562 – Deferred PILs Account

Embrun proposed to clear a credit balance of $127,209 in Account 1562 – Deferred Payments in Lieu of Taxes. Board staff pointed out that the Board has commenced a proceeding to review the deferred PILs, EB-2008-0381. Embrun submitted that it removed the Deferred PILs Account from the proposed list of accounts to be disposed.[47]

Account 1588 – RSVA Power and RSVA Power GA Sub-account,

Embrun applied for the disposition of Account 1588 – RSVA Power. This account records variances in the costs of energy billed to the customer and cost of energy paid by the distributor. All customers share in the disposition of this account.

[45] Board staff Submission p. 13
[46] Board staff Submission p. 14 - 15
[47] Final Argument p.28

A sub-account of 1588 is 1588 – RSVA Power Global Adjustment. This account records the variances on the global adjustment amount billed to non-Regulated Price Plan customers ("non-RPP customers") and the global adjustment charged to the distributor by the Independent Electricity System Operator.

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.[48]

The EDDVAR Report includes guidelines on the cost allocation methodology and the rate rider derivation for the disposition of deferral and variance account balances. Account 1588 excluding the global adjustment sub-account is allocated on the basis of the kWh for all customers. The balance related to the global adjustment is to be allocated on kWh for non-RPP customers.

Board staff suggested that the Board may wish to consider establishing a separate rate rider for the disposition of the global adjustment sub-account balance enabling recovery solely from non-RPP customers, as this would be more reflective of cost causality since it was that group of customers that has been undercharged by the distributor in the first place. Alternatively, Board staff suggested that the Board may wish to consider recovery of the allocated global adjustment sub-account balance from all customers in each class, as 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.

Embrun proposed to allocate the global adjustment sub-account to all customers on a kWh basis. In Embrun's response to a Board staff interrogatory it cited two options that were provided by the Board for the sub-accounts disposition.[49] The options were:

- Use one existing deferral and variance rate rider, where the account balance is recovered from/refunded to all customers in all rate classes; or
- Use a separate variance account rate rider, where the account balance is recovered from/refunded to all non-RPP customers only in all rate classes.

If the first option is used, the distributor is to assess the impacts as to whether this approach would pose any material unfairness by including the RPP customers in the disposition of the global adjustment sub-account. Embrun provided an assessment in

[48] O. Reg. 95/05 of the *Ontario Energy Board Act, 1998*
[49] Board staff Interrogatory 27

the interrogatory response and concluded that first option provided the least impact on customers.

In response to a Board staff interrogatory, Embrun indicated that its current billing system could readily accommodate a separate rate rider that would apply prospectively to non-RPP customers to dispose of the global adjustment sub-account.[50] Embrun also indicated that it also could separate MUSH customers in its billing system.

With respect to the proposed disposition period, Board staff pointed out that customer migration might occur in the low volume group. This customer group would benefit from a relatively short period for disposition. Board staff, therefore, agreed with Embrun's proposal of a one year rate rider.[51]

Board Findings

Account Balances

To the Board, this is an area that created considerable difficulty, insofar as the Applicant's evidence changed materially over the course of the evidentiary stage. It is understandable that changes to the Application can occur through the due diligence of Board staff and intervenors. Any changes, however, must be accompanied by clear explanations as to their nature. This is one area which the Embrun's regulatory competency must improve.

However, the Board is prepared to accept the balances as adjusted and reflected in Embrun's Reply. The December 31, 2008 balances and projected interest up to April 30, 2010 are considered final. For accounting purposes, the respective balance in each of the Group 1 and Group 2 accounts shall be transferred to Account 1595 Disposition and Recovery of regulatory Balances Control Account as soon as possible, and certainly no later than June 30, 2010 so that the Reporting and Record-keeping Requirements ("RRR") data reported in the second quarter of 2010 reflects these adjustments.

With respect to the period over which the account balances should be disposed, the Board is of the view that a disposition period of one year is reasonable.

[50] Board staff Supplemental Interrogatory 9
[51] Board staff Submisssion p. 16

Account 1588 – RSVA Power and RSVA Global Adjustment

While the EDDVAR Report adopted an allocation of the global adjustment 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 be divided by the volumetric billing determinants (kWh or kW) from the most recent audited year-end or Board-approved forecast, if available. This approach spreads the recovery or refund of the allocated account balances to all customers in the affected rate class.

This method was based on two premises. First, 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. Second, that the distributors' billing systems may not be able to bill a subset of customers within a rate class, without placing a significant burden on the distributor.

Subsequent to the issuance of the EDDVAR Report, exogenous economic market events have resulted in increased balances in the global adjustment sub-account for most electricity distributors. The Board has effectively recognized these events and their impacts on the global adjustment sub-account balance in its Enersource Decision.[52]

The Board will adopt the proposal of Board staff that a separate rate rider be established to dispose of the global adjustment sub-account. The rate rider would apply prospectively to non-RPP customers, excluding the MUSH sector. The Board is of the view that it is appropriate to dispose of this account balance from the customer group that caused the variance (i.e. non-RPP customers). While customer migration makes this an imperfect solution, a separate rate rider applicable to non-RPP customers would result in enhanced cost causality compared to a disposition that would apply to all customers in the affected rate classes.

IMPLEMENTATION AND COST AWARDS

Implementation

Embrun requested that their rates be made effective May 1, 2010. No party opposed the May 1, 2010 effective date. The Board therefore approves an Effective Date of May 1, 2010.

[52] Enersource Hydro Mississauga Inc. EB-2009-0405, January 29, 2010

A final Rate Order will be issued after the following steps have been completed.

Cost Awards

The Board may grant cost awards to eligible stakeholders pursuant to its power under section 30 of the Ontario Energy Board Act, 1998. When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of the *Board's Practice Direction on Cost Awards*. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

All filings with the Board must quote the file number EB-2009-0132, and be made through the Board's web portal at www.errr.oeb.gov.on.ca, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must be received by the Board by 4:45 p.m. on the stated date. Please use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.oeb.gov.on.ca. If the web portal is not available you may e-mail your documents to the attention of the Board Secretary at BoardSec@oeb.gov.on.ca. All other filings not filed via the Board's web portal should be filed in accordance with the Board's *Practice Directions on Cost Awards*.

The Board Directs That:

1. Embrun shall file with the Board, and shall also forward to intervenors, a Draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision, within 14 days of the date of this Decision.

2. Intervenors shall file any comments on the Draft Rate Order with the Board and forward to Embrun within 7 days of the date of filing of the Draft Rate Order.

3. Embrun shall file with the Board and forward to intervenors responses to any comments on its Draft Rate Order within 7 days of the date of receipt of intervenor submissions.

4. Intervenors shall file with the Board, and forward to Embrun, their respective cost claims within 30 days from the date of this Decision.

5. Embrun shall file with the Board and forward to intervenors any objections to the claimed costs within 44 days from the date of this Decision.

6. Intervenors shall file with the Board and forward to Embrun any responses to any objections for cost claims within 51 days of the date of this Decision.

DATED at Toronto, March 19, 2010

ONTARIO ENERGY BOARD

Original Signed By

____
Paul Sommerville
Presiding Member