

# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION**

2007 ELECTRICITY DISTRIBUTION RATE ADJUSTMENT

Grand Valley Energy Inc.

EB-2007-0743

## THE APPLICATION

Grand Valley Energy Inc ("GVEI") received approval of 2006 Electricity Distribution Rates, based on the extensive re-basing rates model approved for that purpose, for implementation on May 1, 2006. GVEI received approval of 2007 rates, which increased each rate by 0.9% based on the Incentive Rates Mechanism (IRM), for implementation on May 1, 2007.

On May 16, 2007, GVEI informed the Board that a mistake had been found in the data input to the original 2006 model, involving load data gross and net of distribution losses. The result was a revenue shortfall in 2006 of approximately \$5000. The shortfall would be repeated in 2007 in approximately the same amount, because the 2007 rates are based directly on the 2006 rates. GVEI does not request recovery of the 2006 shortfall, but requests relief for the 2007 shortfall. Failing that, GVEI suggested that it might be considered for a rebasing application, which would come into effect in May 2008.

On August 30, GVEI filed a corrected version of the 2006 model, complete with distribution rates that would have yielded the approved revenue requirement in that year, and with recalculated 2007 rates that would have followed from these corrected rates. The filing also included a set of higher rates that, if implemented on November 1, 2007, and applied to consumption during the remaining six months of the rate year, would yield additional revenue equal to the annual shortfall. On October 26, GVEI filed a corrected version of this latter set of rates.

## DISCUSSION AND SUBMISSION

### Revised rate calculations:

Board staff submits that the corrected version of the 2006 model is valid, and that the rates calculated from it would have been the correct basis for 2007 distribution rates for implementation at the beginning of the rate year. Further, Board staff submits that the estimated amount of the annual shortfall incurred by the currently approved rates appears to be reasonably accurate. Finally, Board staff submits that the rates submitted on October 26 are calculated correctly to provide for the full (2007 annual) recovery of this amount over a six month period. The revenue that has been generated by the currently approved rates implemented for six months to date, together with revenue that would be generated by these new rates implemented for the remaining six months, would be reasonably close to the revenue that would have been collected over twelve months from the correct rates.

**Over-recovery during six months:**

Board staff submits that the Board's practice has been to implement correct rates as soon as possible after an error has been detected, but its practice has usually been to not allow for recovery of revenue foregone in the period up to the implementation date.

In its letter of May 16, 2007, GVEI presents a calculation of the amount of the annual shortfall, and has expressed this amount as being considerable in comparison to its annual net income. However, Board staff submits that GVEI should make a submission on why the Board should depart from its usual practice.

**Materiality:**

GVEI has expressed concern about the cost-effectiveness of applying for the rate adjustment, in terms of the cost of reimbursing intervenor costs in the event that the application would be contested. Board staff submits that costs other than these costs have already been incurred from the requirement to advertise notice of the Application. Additional costs will be incurred to implement revised rates, including the usual requirement to inform customers of the rate change. Board staff submits that GVEI should address the cost of implementing revised rates. GVEI should provide the Board with a comparison of these costs with the amount of additional revenue that would be generated. The comparison should be presented both in relation to the amount of additional revenue that would be generated by the higher rates being applied for, and secondly in relation to the lesser revenue that would be generated if the Board were to approve IRM-adjusted rates based on the revised 2006 calculations.

All of which is respectfully submitted