

**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 EMAIL**

January 18, 2010

Ontario Energy Board  
P.O. Box 2319  
27th Floor  
2300 Yonge Street  
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Centre Wellington Hydro Ltd.  
2011 IRM3 Distribution Rate Application  
Board Staff Submission  
Board File No. EB-2010-0072**

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Centre Wellington Hydro Ltd. and to all other registered parties to this proceeding.

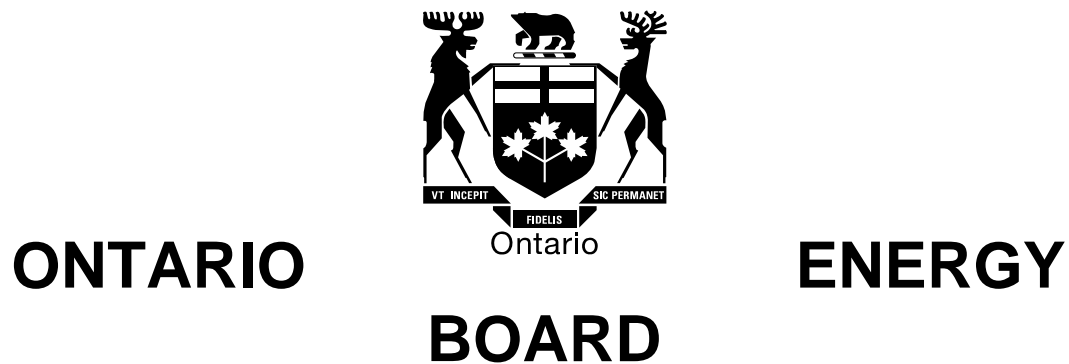
In addition please remind Centre Wellington Hydro Ltd. that its Reply Submission is due by February 8, 2011.

Yours truly,

*Original Signed By*

Daniel Kim  
Analyst, Applications & Regulatory Audit

Encl.



## **STAFF SUBMISSION**

**2011 ELECTRICITY DISTRIBUTION RATES**

**Centre Wellington Hydro Ltd.**

**EB-2010-0072**

**January 18, 2011**

**Board Staff Submission  
Centre Wellington Hydro Ltd.  
2011 IRM3 Rate Application  
EB-2010-0072**

**Introduction**

Centre Wellington Hydro Ltd. ("Centre Wellington") filed an application (the "Application") with the Ontario Energy Board (the "Board"), received on September 30, 2010, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that Centre Wellington charges for electricity distribution, to be effective May 1, 2011. The Application is based on the 2011 3<sup>rd</sup> Generation Incentive Regulation Mechanism.

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by Centre Wellington.

In the interrogatory phase, Board Staff identified certain discrepancies in the data entered in the application model by Centre Wellington. In response to Board staff interrogatories which requested either a confirmation that these discrepancies were errors or, an explanation supporting the validity of the original data filed with the application, Centre Wellington confirmed that they were errors and provided the corrected data. Board Staff will make the necessary corrections to Centre Wellington's model at the time of the Board's decision on the application.

Board staff makes submissions on the following matters:

- Adjustments to the Revenue-to-Cost Ratios;
- Alignment of Rate Year with Fiscal Year;
- Disposition of Deferral and Variance Accounts as per the *Electricity Distributors' Deferral and Variance Account Review Report* (the "EDDVAR Report");
- HST Considerations; and
- Smart Meter Funding Adder.

## **ADJUSTMENTS TO THE REVENUE-TO-COST RATIOS**

### **Background**

The Board's Decision (EB-2008-0225) for Centre Wellington's 2009 cost of service rate application prescribed a phase-in period to adjust revenue-to-cost ratios over a three-year period.

### **Submission**

Board staff submits that the proposed revenue-to-cost ratio adjustments are in accordance with the Board's findings in its EB-2008-0225 Decision.

## **ALIGNMENT OF RATE YEAR WITH FISCAL YEAR**

### **Background**

Centre Wellington proposed that the Board approve an effective date of January 1, 2012 for its next IRM application in order to align its rate year with its fiscal year. Centre Wellington presented evidence in support of an alignment of the rate year with the fiscal year as part of this application.

On April 15, 2010, the Board issued a letter to providing guidance to electricity distributors on the alignment of the rate year with fiscal year. The letter was a result of a Board initiated consultative process (EB-2009-0423) to review the need for and the implications of a potential alignment of the rate year with the fiscal year for electricity distributors. The Board concluded that it is appropriate to consider the merits of an alignment of the rate year with the fiscal year on a case-by-case basis in a cost of service application.

### **Submission**

In response to Vulnerable Energy Consumers Coalition's ("VECC") interrogatory #1b, Centre Wellington confirmed that it has not filed a Cost of Service rate application for 2011 rates and has not requested to have its 2011 IRM application effective January 1, 2011.

Board staff submits that in accordance with the Board's letter dated April 15, 2010, Centre Wellington should not be seeking approval to align its rate year with its fiscal year within an IRM application. Board staff is therefore of the view that the Board should deny this request at this time.

## **DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT**

### **General Background**

For purposes of 2011 IRM applications, the EDDVAR Report requires a distributor to determine the value of its December 31, 2009 Group 1 Deferral and Variance account balance and determine whether the balance exceeds the preset disposition threshold of \$0.001 per kWh using the 2009 annual kWh consumption reported to the Board. When the preset disposition threshold is exceeded, a distributor is required to file a proposal for the disposition of Group 1 account balances (including carrying charges) and include the associated rate riders in its 2011 IRM Rate Generator for the disposition of the balances in these accounts. The onus is on the distributor to justify why any account balance in excess of the threshold should not be cleared.

### **Centre Wellington Specific Background**

Centre Wellington requested that the Board review and approve the disposition of the December 31, 2009 balances of Group 1 Deferral and Variance accounts as defined by the EDDVAR report. The total balance of the Group 1 accounts, excluding the 1588 global adjustment sub-account is a credit of \$217,725. The balance in the 1588 global adjustment ("GA") sub-account is a credit of \$169,919. Centre Wellington proposed to refund the GA sub-account balance by means of a rate rider that would be included in the electricity component of the bill for non-RPP customers. Centre Wellington has included interest, using the Board's prescribed interest rates, on these account balances up to April 30, 2011. Credit balances are amounts refundable to customers.

Centre Wellington proposed to dispose of its Group 1 account balances over a one-year period.

## Submission

With regard to its 2011 deferral and variance account balances, Board staff notes that the principal amounts to be disposed as of December 31, 2009 reconcile with the amounts reported as part of the Reporting and Record-keeping Requirements ("RRR"). Board staff therefore submits that the amounts should be disposed on a final basis. Board staff also submits that Centre Wellington's proposal to dispose of its Group 1 Account balances over a one-year period is in accordance with the EDDVAR Report.

In response to Board staff interrogatory #2a, Centre Wellington's explained that it is proposing to dispose of the GA sub-account balance through the electricity component of the bill because the initial global adjustment was charged to those customers with Retailers (non-RPP) or those customers paying Hourly Ontario Energy Price or the Weighted Average Price based on the uplifted kWh's that they used. Therefore, by applying the credit to the non-RPP customers by means of a rate rider that is based on the uplifted kWh, Centre Wellington advanced that the credit would be applied on the same basis that the customers were charged.

Board staff notes that with respect to recovery of the GA sub-account, the prevalent practice amongst distributors is to dispose of the GA sub-account by means of a separate rate rider applicable to non-RPP customers that is included in the delivery component of the bill. Board staff further notes that during the 2010 IRM applications, the Board approved the recovery of the GA sub-account in the electricity component of the bill for non-RPP customers only in cases where the distributor could not readily accommodate a separate rate rider that would apply prospectively to non-RPP customers in the delivery component of the bill.

In response to Board staff interrogatory #2c, Centre Wellington stated that the 2011 IRM Deferral and Variance Account Workform allowed for the two options of either returning the (global adjustment) credit based on the electricity charge or the distribution charge. Board staff notes that the intention of the model was to accommodate distributors that could not readily accommodate a separate rate rider that would apply prospectively to non-RPP customers in the delivery component of the bill. Board staff notes that in response to an interrogatory from Board staff in Centre Wellington's 2010 IRM application, Centre Wellington indicated that its billing system

would be capable of billing Non-RPP customers a separate rate rider. At the time, a separate rate rider was not established because the GA sub-account balance was not material.

Board staff submits that a separate rate rider be established and that the amount be disposed of through the distribution portion of the bill to Non-RPP customers only.

## **HST CONSIDERATIONS**

### **Background**

In Centre Wellington's 2010 IRM rate application (EB-2009-0218), the Board stated the following on page 6 of its Decision and Order:

"The Board therefore directs that, beginning July 1, 2010, Centre Wellington shall record in deferral account 1592 (PILs and Tax Variances, Sub-account HST/OVAT Input Tax Credits ("ITC")), the incremental ITC it receives on distribution revenue requirement items that were previously subject to PST and become subject to HST. Tracking of these amounts will continue in the deferral account until the effective date of Centre Wellington's next cost of service rate order. 50% of the confirmed balances in the account shall be returnable to the ratepayers.

The Board may issue more detailed accounting guidance in the future. In that event the Applicant should make the appropriate accounting entries, if and as applicable."

Centre Wellington noted that it is proven to be incrementally onerous to track the ITC amounts due to factors such as the need to follow tax guidelines in regards to Recaptured ITCs ("RITC"). As well, accounting software packages are not structured to easily apply a set of rules that could be applied to appropriately track the incremental ITC. Centre Wellington noted that it has found it necessary to use valuable staff hours to complete the work that it has deemed necessary to fulfill this requirement. Centre Wellington expects that additional (incremental) staff resources will have to be incurred during the three-year tracking period until the next cost of service application has been approved.

Centre Wellington requested that the Board allow the incremental costs that are incurred to track the PST portion of the HST to be placed in deferral account 1592 sub-account to eventually result in an incremental PST portion of the HST less cost amount, which would be shared on a 50% basis with the ratepayers.

Centre Wellington further submitted that Board staff be directed to issue more detailed accounting guidance in this matter.

## **Submission**

Board staff notes that in December 2010, the Board provided Frequently Asked Questions (“FAQs”) on the Accounting Procedures Handbook for electricity distributors. Specifically, accounting guidance was provided to electricity distributors on “Sub-account HST / OVAT Input Tax Credits” of Account 1592 to record the ITC savings arising from the implementation of the HST on July 1, 2010. The accounting guidance provided a simplified approach designed to provide administrative cost-saving opportunities. On that basis, Board staff submits that any costs incurred to track the HST should not be recorded in Account 1592.

## **SMART METER FUNDING ADDER**

### **Background**

Centre Wellington is requesting an increase to its smart meter funding adder from \$1.00 to \$2.78 per metered customer per month.

Centre Wellington is not seeking approval for capital and operating costs incurred to date or in 2011 in this application, but will track actual costs, and revenues received from the funding adder, in the established smart meter related deferral accounts for review and disposition in a subsequent application.

### **Submission**

Board staff submits that Centre Wellington has complied with the policies and filing requirements of the Smart Meter Guideline. Actual smart meter expenditures will be subject to review when Centre Wellington makes an application for disposition of the



account balances in a subsequent proceeding. Board staff takes no issue with Centre Wellington's proposal to increase its smart meter funding adder to \$2.78 per metered customer per month.

All of which is respectfully submitted