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BY EMAIL

January 20, 2010

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Middlesex Power Distribution Corporation - Dutton
2011 IRM2 Distribution Rate Application
Board Staff Submission
Board File No. EB-2010-0274**

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 Middlesex Power Distribution Corporation - Dutton and to all other registered parties to this proceeding.

In addition please remind Middlesex Power Distribution Corporation - Dutton that its Reply Submission is due by February 10, 2011.

Yours truly,

Original Signed By

Christiane Wong
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2011 ELECTRICITY DISTRIBUTION RATES

Middlesex Power Distribution Corporation – Dutton

EB-2010-0274

January 20, 2011

**Board Staff Submission
Middlesex Power Distribution Corporation - Dutton
2011 IRM2 Rate Application
EB-2010-0274**

Introduction

Middlesex Power Distribution Corporation - Dutton ("Dutton") filed an application (the "Application") with the Ontario Energy Board (the "Board") on October 1, 2010, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Dutton charges for electricity distribution, to be effective May 1, 2011. The Application is based on the 2011 2nd 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 Dutton.

In the interrogatory phase, Board Staff identified certain discrepancies in the data entered in the application model by Dutton. 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, Dutton confirmed that they were errors and provided the corrected data. Board Staff will make the necessary corrections to Dutton's model at the time of the Board's decision on the application.

Staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Dutton. Pursuant to Guideline G-2008-0001, updated on July 8, 2010, staff notes that the Board will update the applicable data at the time that this IRM decision is issued based on any available updated Uniform Transmission Rates.

Board staff makes submissions on the following matters:

- Deferral and Variance Account Disposition; and
- Smart Meter Funding Adder.

DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNT BALANCE

Dutton is proposing to dispose of its Group 1 deferral and variance account balances having exceeded the \$0.001/kWh disposition threshold. The total balance requested for disposition is a debit of \$247,622 due from customers. Dutton explained that this claim relates to the 2005 to 2008 Group 1 Deferral account activities that were not submitted to the Board for disposition by the previous ownership. Staff notes that in Dutton's 2010 IRM application, the disposition of the balances as of December 31, 2008 was deferred to 2011 to allow time for the new owners to verify the deferral and variance account activities for the subject period. Staff notes that in its current application, Dutton noted that starting in 2009, deferral and variance account balances have been accounted for and filed on a consolidated basis for all Middlesex service areas. Any account activities in the Dutton service area would be captured by the parent company, Middlesex Power Distribution Corporation.

Dutton is proposing a 4 year mitigation plan for the disposition of these balances. The EDDVAR Report states:

"The Board also agrees that when the impact on the total bill exceeds 10% for any given rate class, including the impact of both the disposition of Account balances and any other rate change, a distributor must also file a rate mitigation plan."

Staff notes the following total bill impact scenarios as gleaned from the application:

- 1 year: 22.1%,
- 2 years: 12.4%,
- 3 years: 9.2%, and
- 4 years: 7.6%.

While a disposition period of three years would be a viable alternative given that the total bill impact is less than 10%, staff does not object to the four year period proposed by the applicant given that the remaining adjustments that will be included in this application are not yet finalized (e.g. RTSRs, IPI-X).

SMART METER FUNDING ADDER

In its original application, Dutton proposed that its Smart Meter Funding Adder be increased from \$1.00 to \$4.82 per month per metered customer. In support, Dutton filed a Smart Meter Model.

Board staff posed certain interrogatories seeking clarification of Dutton's Smart Meter Model. In response to the interrogatories, Dutton submitted a revised Smart Meter Model, which resulted in a Smart Meter Funding Adder of \$5.16 per month per metered customer.¹ Changes made reflect the following:

- Correction to account for Net Income and Depreciation expense in the determination of PILs for 2011; and
- Correction to reflect the fact that 41 GS < 50 kW smart meters were installed in 2010 rather than 2009. Dutton also reflected a small change in the capital costs of installed smart meters in 2009 and 2010, from \$84,998 to \$86,593.

Upon review of the Smart Meter Model in this application, Board staff observed that the model does not reflect the deemed short-term debt capitalization in determining the incremental revenue requirement for installed smart meters. Once the necessary corrections are made to the model, Board staff submits that Dutton's proposed Smart Meter Funding Adder would be \$5.17 per month per metered customer. A copy of the revised model is attached with this submission.

Board staff has reviewed Dutton's proposal and considers that the inputs and assumptions are reasonable, with one further caveat. This proposed smart meter funding adder is much higher than the Board has approved to date, and even higher than what is normally expected as the incremental long-run increase in a customer's bill reflecting recovery of capital-related and ongoing operating expenses of smart meters. However, this higher-than-usual Funding Adder can be explained as follows.

First, Dutton is unlike most electricity distributors in that it has not been collecting revenues through the Smart Meter Funding Adder since May 1, 2006. Dutton only commenced applying a Smart Meter Funding Adder of \$1.00 per month per metered customer in November 2010. Therefore, very little money has been collected to offset the deferred revenue requirement of installed smart meters. In effect, Dutton has

¹ Response to Board staff interrogatory # 3

funded full smart meter deployment in 2009-2010 through internal funding, and has only recently started to fund the incurred costs through an adder. While revenues collected through the Smart Meter Funding Adder for other distributors over a longer period are a larger offset to the deferred revenue requirement to be recovered to keep the utility whole, this is not the case for Dutton. Hence, a larger Smart Meter Funding Adder is to be expected.

A second reason for the larger funding adder is that the funding adder is calculated to collect the deferred revenue requirement for a multi-year period: from 2009 to 2011, in the 2011 rate year, which is a one year period. In Board staff's submission it is appropriate to accelerate recovery to limit the amount remaining to be recovered when application is made for a prudence review and subsequent disposition. However, in large part because of the small amounts of funding adder revenues to offset the incremental revenue requirement, Board staff believes that a funding adder of \$5.17 per month also significantly overstates what will be the long-run increase in Dutton's distribution rates once smart meters are incorporated into the utility's rate base and treated like other distribution assets.

While a proposed Smart Meter Funding Adder of \$5.17 per month per metered customer is supported by the corrected model, this could result in some rate volatility – both an increase of \$4.17 per month now and a likely decrease when smart meter costs are disposed in a subsequent application. The Board's practice has been to limit volatility, as evidenced by the allowance for the Smart Meter Funding Adder to gradually ramp up from about \$0.30 to a level closer to recovery of the incremental revenue requirement.

In light of this, Board staff asked if a Smart Meter Funding Adder of \$3.50 per month per metered customer, as was recently approved in Atikokan Hydro's application (EB-2010-0185) might be acceptable to mitigate rate impacts, with full cost recovery subject to a prudence review upon disposition at a future date. In reply, Dutton indicated that a Smart Meter Funding Adder of \$3.50 per month per metered customer would be acceptable.² Board staff submits that an increase in the Smart Meter Funding Adder from \$1.00 to \$3.50 per month per metered customer, an increase of \$2.50, is reasonable to begin collecting the deferred revenue requirement of smart meters that Dutton has deployed. This will reduce the balance to be recovered when the utility files

² Response to Board staff IR # 4.

for disposition and prudence review of its smart meter costs, and will help to mitigate rate volatility and rate impacts upon disposition.

Board staff notes that the total bill impact attributable solely to the originally proposed funding adder of \$5.16 per meter per month (keeping all other proposals in the application model as filed) is 3.7% for the residential class. A funding adder of \$3.50 reduces this impact to 2.2%. The total bill impact for all elements of the application for a typical residential customer including a funding adder of \$3.50 is 6.3%. Staff notes that as an alternative, a change to a funding adder of \$3.25 per meter per month would lead to a total bill impact attributable solely to the funding adder increase to \$3.25 (keeping all other proposals in the application model as filed) of 2% for the residential class.

All of which is respectfully submitted.