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

Ontario

BY EMAIL

January 24, 2011

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: Niagara-on-the-Lake Hydro Inc.
2011 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2010-0101

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 Niagara-on-the-Lake Inc. and to all other registered parties to this proceeding.

In addition please remind Niagara-on-the-Lake Hydro Inc. that its Reply Submission is due by February 14, 2011.

Yours truly,

Original Signed By

Christiane Wong
Analyst, Applications & Regulatory Audit

Encl.

VT INCEPIT FIDELIS SIC PERMANET

Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2011 ELECTRICITY DISTRIBUTION RATES

Niagara-on-the-Lake Hydro Inc.

EB-2010-0101

January 24, 2011

Board Staff Submission
Niagara-on-the-Lake Hydro Inc.
2011 IRM3 Rate Application
EB-2010-0101

Introduction

Niagara-on-the-Lake Hydro Inc. ("NOTL") filed an application (the "Application") with the Ontario Energy Board (the "Board") on October 13, 2010, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that NOTL charges for electricity distribution, to be effective May 1, 2011. The Application is based on the 2011 3rd 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 NOTL.

Staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by NOTL. 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.

Staff notes that NOTL's smart meter funding adder is currently at $1.00 per metered customer per month. NOTL is proposing to maintain the adder at this level for 2011.

In response to interrogatory #1 from Board staff, NOTL provided a revised version of Sheet F1.1 Z-Factor tax changes. The Taxable Capital entry for 2010 was revised to $21,857,012 and the Regulatory Taxable Income entry for 2010 was revised to $763,707 to agree with the Revenue Requirement Work Form ("RRWF") corresponding to the Board's cost of service Decision in EB-2008-0237. This results in changing the amount to be returned to customers from $69,602 to $54,263. Board staff notes that the use of the RRWF data is consistent with the Board's instructions for the 2011 IRM3 model issued on August 20, 2010. The intent of the instructions is to adjust for any savings flowing from tax changes as compared to the income tax rate and capital tax assumptions that underpin a distributor's current base rates. Staff submits that using the RRWF data as revised and submitted by NOTL is the correct approach because this revised data is based on assumptions that underpin NOTL's current base distribution rates.

Board staff will make any necessary corrections to NOTL's models resulting from the Board's findings on this matter.

Board staff makes detailed submissions on the following matters:

- Lost Revenue Adjustment Mechanism ("LRAM") and Shared Savings Mechanism ("SSM") rate rider; and

- Disposition of Deferral and Variance Accounts as per the *Electricity Distributors' Deferral and Variance Account Review Report* (the "EDDVAR Report").

LRAM and SSM rate rider

Submission

The Board's Guidelines for Electricity Distributor Conservation and Demand Management (the "Guidelines") issued on March 28, 2008 outline the information that is required when filing an application for LRAM and SSM.

Board staff submits that NOTL's application for LRAM and SSM recovery is consistent with the Board's Guidelines and the Board's Decision on Horizon's application (EB-2009-0192) for LRAM recovery.

With respect to the revised LRAM amount of $129,149 that was requested by NOTL in a letter dated December 23, 2010, Board Staff submits that this amount reflects final, verified results that were provided to NOTL by the OPA. Board Staff supports the approval of the updated LRAM amount noted above and the originally requested SSM amount of $3,127.24.

Disposition of Deferral and Variance Accounts as per the *Electricity Distributors' Deferral and Variance Account Review Report* (the "EDDVAR Report")

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 balances and determine whether the total 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.

NOTL is proposing not to dispose its Deferral and Variance account balance as of December 31, 2009 because it does not meet the threshold for disposition. Staff notes that NOTL's original analysis did not include account 1588. In response to Board staff interrogatory #2c), NOTL noted that the Board's decision in EB-2010-0056 (arising out of the Board's quarterly review of account 1588 for all distributors), issued on September 29, 2010, ordered that no disposition would take place for account 1588 for any distributor. NOTL interpreted this order to mean that the EDDVAR Report, which requires the disposition of all Group 1 accounts (including account 1588) if the threshold has been exceeded, was overridden by the September 29, 2010 decision. Staff notes that the September 29, 2010 decision also noted the following:

> This Decision and Order does not limit the decision making authority of the Board in the review and potential disposition of any specific distributor's Account 1588 that may currently be under review by the Board in 2010 or 2011 rates case, or where disposition of the balance of Account 1588 has been ordered.

Staff submits that account 1588 should be included in the total balance to be disposed and if so, that the threshold test is satisfied. The total balance of the Group 1 accounts is a credit of $692,318 including account 1588. In terms of the threshold test, staff notes that the total balance per kWh is ($0.004).

Staff notes that in the event the Board decides to dispose of the Group 1 accounts, a one year disposition period results in a decrease of 1.9% on the total bill for a typical residential customer, and a two year disposition period results in a decrease of 0.3% on the total bill. NOTL may wish to confirm these impacts in its reply submission. These impacts do not include any change to the tax sharing amounts noted above or other changes such as the IPI-X and RTSR adjustments that Board staff will implement at the time of the decision for this application. The EDDVAR Report's default disposition period is one year. Staff submits that a two year disposition period would be appropriate for NOTL in the interests of rate stability. NOTL's next regularly scheduled cost of service application is for 2013 rates.

With regard to the quantum of NOTL's 2011 deferral and variance account balances, Board staff notes that the principal amounts to be disposed as at December 31, 2009 reconcile with the amounts as part of the Reporting and Recording-keeping Requirements.

Board staff therefore submits that the Board should order disposition of the Group 1 accounts on a final basis.

All of which is respectfully submitted.