

**Ontario Energy
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BY E-MAIL

December 24, 2007

Ontario Energy Board
Board Secretary
2300 Yonge Street, Ste. 2701
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Hydro Ottawa 2008 Electricity Distribution Rates Application
Board File Number EB-2007-0713**

Please see attached Board staff's submission for the above proceeding. Please forward the attached to Hydro Ottawa Inc. and all intervenors in this proceeding.

Yours truly,

Original Signed by

Harold Thiessen
Case Manager

**Hydro Ottawa Limited
Cost of Service Distribution Rate Application
EB-2007-0713**

Board Staff Submission regarding the request for an Interim Rate Order

Introduction

Hydro Ottawa Limited (Hydro Ottawa) filed an application with the Ontario Energy Board, received on September 19, 2007, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Hydro Ottawa charges for electricity distribution, to be effective May 1, 2008.

As part of this application, Hydro Ottawa requested that its currently approved distribution rates be declared interim as of January 1, 2008. The request for interim rates is key to a further request for approval of a revenue deficiency that the applicant submits arises from the timing difference between the Test Year (calendar 2008) and the 2008 Rate Year (May 1, 2008 to April 30, 2009).

In Procedural Order #2 for this proceeding, the Board invited written submissions from parties on the request to declare rates interim and ordered that these submissions be filed by December 21, 2007.

Board Staff Submission

Board staff submits that it appears that the Hydro Ottawa interim rates request is based on two separate issues:

- 1) A proposal to recover a purported revenue deficiency which arises from a mismatch between the period over which the revenue requirement and rate is calculated (the “test year”) and the period over which the rate will be charged to customers (the “rate year”) to collect the revenue requirement.
- 2) The requested designation of the January 1 to April 30, 2008 as a period of revenue deficiency implies that the rate year period used by the Board to set distribution rates in the past should be altered from the current May 1 to April 30 time period to the January 1 to December 31 time period. This would mean moving the rate year to match the test year.

Revenue Deficiency

Board staff submits that the test to determine the first issue is whether a revenue deficiency will occur if 2008 rates are implemented on May 1, 2008 rather than January 1, 2008.

The Board has set the current revenue requirement and current rates for Hydro Ottawa based on a rate cap adjustment. The base rates were derived from a calendar test year from the previous year, 2006.

The rates were set to recover the approved revenue requirement over 12 months, starting May 1 and continuing until April 30 of the next year. This was the case for both 2006 and 2007.

It appears that Hydro Ottawa is submitting that because the test year differs from the rate year, they will have a revenue deficiency. For that to occur, the 12 month forecast used to determine the revenue requirement would have to significantly differ from the actual demand experienced by the distributor.

Hydro Ottawa has not demonstrated that they will be suffering a revenue deficiency associated with their forecast differential in their requested 2008 revenue requirement.

Board staff notes that it is more than likely Hydro Ottawa will be collecting revenues in excess of the requested revenue requirement due to a higher load in January to April of 2009 as compared to the forecast load which is based on January to April of 2008.

Hydro Ottawa is encouraged to demonstrate how the revenue deficiency occurs in this situation.

If no deficiency can be clearly demonstrated, there appears to be no reason to declare rates interim to facilitate a recovery of a deficiency. While it can be argued that there is a mismatch between test year and the rate year, the Board needs to be satisfied that the mismatch would create significant harm to either the distributor or customer with the uncertainty associated with the forecast due to timing differentials, weather, economic growth and conservation efforts. It is not clear that the mismatch is significant.

A further point regarding the deficiency is that Hydro Ottawa has rates currently in place to recover approved revenues for the 2007 test year, in the January to April period of 2008. A further increase in revenues in that period, due to the recovery of a deficiency for the 2008 test year, would lead to an over-recovery of revenues approved for the 2007 rate year.

Changing the Rate Year

Board staff submits that the request for interim rates for January 1, 2008, combined with a request to recover a purported revenue deficiency for the period before the May 1 date set by the Board, implies that the Board's rate year should be altered.

The Board has set the rate year to begin on May 1, to coincide with the RPP rate change that takes place on that date. The Board has designed the rate setting methodology/process to coincide with the twice yearly change in RPP electricity prices,

largely for the benefit of customers across the province, so they do not have to undergo multiple rate changes each year.

The May 1 start to the rate year provides customers with their distribution rate change at the same time the RPP is adjusted, therefore reducing uncertainty and providing more stability than would be the case with an additional change in January of each year (ie, matching the fiscal year with the rate year). Approving a new rate year for Hydro Ottawa would set a precedent for all distribution utilities in the province and would complicate the orderly transition to the 3rd generation IRM currently under development.

In addition, Hydro Ottawa has indicated that it is not aware of any regulatory precedent in support of this proposal. Hydro Ottawa is encouraged to comment on the impacts of this proposal on these Board processes and on other distributors.