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Ontario

BY EMAIL

February 02, 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: Rideau St. Lawrence Distribution Inc.
2011 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2010-0113

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 Rideau St. Lawrence Distribution Inc. and to all other registered parties to this proceeding.

In addition please remind Rideau St. Lawrence Distribution Inc. that its Reply Submission is due by February 23, 2011.

Yours truly,

Original Signed By

Christiane Wong
Analyst, Applications & Regulatory Audit

Encl.

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Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2011 ELECTRICITY DISTRIBUTION RATES

Rideau St. Lawrence Distribution Inc.

EB-2010-0113

February 02, 2011

Board Staff Submission
Rideau St. Lawrence Distribution Inc.
2011 IRM3 Rate Application
EB-2010-0113

Introduction

Rideau St. Lawrence Distribution Inc. ("RSL") filed an application (the "Application") with the Ontario Energy Board (the "Board") on November 11, 2010, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that RSL 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 RSL.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application model by RSL. 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, RSL confirmed that they were errors and provided the corrected data. Board staff will make the necessary corrections to RSL'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 RSL. 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.

The Board's *Guidelines for Electricity Distributor Conservation and Demand Management* (the "CDM Guidelines") issued on March 28, 2008 outline the information that is required when filing an application for LRAM or SSM recovery. RSL requested the recovery of $53,268.56 in lost revenue related to its CDM activities. Board staff submits that RSL has complied with the Board's CDM Guidelines in preparing the LRAM portion of its Application. Board staff has no issues with the LRAM claim as filed.

Board staff makes detailed submissions on the following matters:

- Smart Meter Rate Rider;
- Tax Change Rate Rider; and
- Review and Disposition of Deferral and Variance Account Balances.

Smart Meter Rate Rider

As is widely recognized, an application for a change to a smart meter funding adder does not entail a comprehensive prudence review. Nonetheless, Board staff submits that some level of scrutiny of a proposed funding adder and the costs from which it is derived is warranted. During the period of smart meter implementation, increased funding adders have been allowed. This allows at least partial recovery of costs and mitigates rate volatility in the future. To date, the funding adder has been modest for most distributors, either $1 per metered customer per month or some slightly higher distributor-specific number derived by using the smart meter model. The possibility that the funding adder might over-recover the incremental revenue requirement for installed smart meters has been low. However, as distributors complete deployment, applications are being made for an increased funding adder that is, for all intents and purposes, a full recovery of the incremental revenue requirement for the installed smart meters, and without a review for prudence. As the funding adder increases, the possibility of over-recovery increases, particularly if some costs are subsequently disallowed. Over-recovering costs and then subsequently having to refund amounts to customers introduces rate volatility that should be avoided if possible.

Therefore, in reviewing costs for significantly increased smart meter funding adders, Board staff submits that some further scrutiny is warranted. Board staff has adopted this approach in reviewing RSL's application.

In its original application, RSL proposed an increase in its smart meter funding adder from $2.00 to $3.00 per month per metered customer. In response to Board staff IR # 4, RSL clarified that the $3.00 per month per metered customer was an error, and the original proposal should have been for $3.63.

In analyzing RSL's application, Board staff observed that the smart meter model used did not properly account for the short term debt capitalization in determining the incremental revenue requirement and the smart meter funding adder. Board staff provided an amended model as an attachment to Board staff IR #7. In its response to that interrogatory, RSL agreed with the corrected model and revised its proposed smart meter funding adder to $3.69 per month per metered customer.

Following a review of RSL's response to Board staff interrogatory # 6, Board staff is satisfied with the costs included in the funding adder calculations. RSL shows $27,000 in communication costs for over 5,000 customers, or about $5.00 per customer over a period of 4 years. Staff also notes that the capital cost is $157.25 per meter and the OM&A cost is $22.32 per meter, both of which are within the range of what is typically seen for other utilities. The software capital costs of $44.92 per meter appear to be higher than what is typically seen for other utilities. RSL will track revenues received from the funding adder, and actual costs incurred, in the established smart meter related variance accounts for review and disposition in a subsequent application. Board staff notes that actual smart meter expenditures will be subject to a prudence review when RSL makes an application for the disposition of smart meter related variance account balances in a subsequent proceeding. .

Staff notes that while the $3.69 adder is relatively high, the costs that make up the adder seem reasonable at this stage of RSL's deployment. RSL deployed most of its smart meters in 2009, and so the larger amount reflects the recovery of three years of revenue requirement.

Board staff submits that one option would be for the Board to approve a smart meter funding adder of $3.50 per month per metered customer, on a similar basis as the Board's approval for Atikokan Hydro EB-2010-0185. While staff is satisfied with the costs shown in the smart meter model for purposes of calculating a temporary rate adder, staff submits that RSL would not be negatively impacted if the Board were to reduce the adder to $3.50. The $3.69 funding adder is based on the recovery of the annual revenue requirement amounts for 2009, 2010 and 2011, net of any recoveries to date. This approach would leave little for disposition from the 1555 and 1556 account balances when RSL makes a subsequent application for disposition and prudence review of costs. Staff notes that RSL is scheduled to file a cost of service application later this year for 2012 rates. At that time, it is expected that the majority of RSL's smart meter costs would be made available for a prudence review since RSL would have its costs audited to the end of 2010.

In its reply submission, RSL may wish to identify any implications arising from a funding adder of less than $3.50.

Board staff notes that the total bill impact attributable solely to the proposed funding adder of $3.69 per meter per month (keeping all other proposals in the application model as filed) is an increase of 1.7% for the residential class. The total bill impact for all elements of the application for a typical residential customer including a funding adder of $3.69 is a decrease of 1.1%.

Tax Change Rate Rider

Background
RSL calculated the annual tax savings and allocated it to customer rate classes in accordance with the Board's methodology in the 2011 IRM3 Shared Tax Savings Workform. The amount to be refunded to ratepayers is $902. Since this amount is not material, RSL proposed that this credit amount be included in account 1595 for disposition in a future rate setting process consistent with the Board's direction in EB-2009-0248.

Submission
Board staff agrees that the approach proposed by RSL is consistent with the Board's findings in 2010 IRM applications where the amount to be credited back to customers was such that the resultant energy-based kWh rate riders were less than four decimal places and demand-based kW rate riders were less than two decimal places. In these cases, and others where the amount was not material, the Board found that the refund amount was not material enough to be refunded by means of a rate rider and approved the recording of this amount directly in account 1595 for disposition in a future rate proceeding.

Review and Disposition of Deferral and Variance Account Balances

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.

RSL has requested the disposition of all Group 1 account balances totalling a debit of $34,899 over a one year period even though the balances of the Group 1 variance accounts collectively do not exceed the preset disposition threshold of $0.001 per kWh. Debit balances are amounts recoverable from customers. The threshold calculation is $0.000316.

RSL noted that both the RSVA Power account and the RSVA Power Global Adjustment Sub-account exceed the threshold test when calculated on a standalone basis. RSL further noted that failure to dispose of a material balance could result in a larger than needed balance going forward. Staff notes that the balance in the RSVA Power account excluding the Global Adjustment sub-account is a credit of $132,531 and in the Global Adjustment sub-account is a debit of $409,069. Staff also notes that the total of the remaining accounts is a credit of $241,639.

Submission

Board staff notes that the methodology proposed by RSL is not consistent with the EDDVAR Report. In the EDDVAR Report, the Board established a preset disposition threshold of $0.001 per kWh during the IRM plan term for all Group 1 accounts combined. On that basis, the preset disposition threshold was not exceeded for RSL. Board staff notes that this disposition threshold level is intended to enhance the distributor's ability to manage its cash flow. When this threshold is exceeded, the distributor will file a proposal for the disposition of all Group 1 Account balances (including carrying charges). On this basis, Board staff submits that disposition is not warranted at this time.

Board staff further notes that the Board has previously considered a case where the preset disposition threshold was narrowly missed (Enersource Hydro Mississauga Inc.'s

2010 IRM application EB-2009-0405). In that Decision, the Board Panel opined that while recognizing the value of the EDDVAR Report in guiding decisions with respect to the disposition of deferral and variance accounts, the Panel found that the public interest required it to deviate from the EDDVAR Report under certain circumstances. The Board noted that since the account balances were in a credit position, the amounts should be disposed as requested by the applicant.

In this case, unlike with the Enersource situation, the disposition threshold calculation does not result in a number close to the threshold and the total balance is in a debit position. Board staff submits that since the RSVA Power Global Adjustment Sub-account is cleared to a small subset of customers, and the balance in this account exceeds the threshold, the Board could decide that clearing this account is in the public interest because of intergenerational equity.

Staff notes that this option would leave a credit balance of $374,170 to be carried over to a future rate proceeding. Staff submits that if the Board decides to dispose of RSL's RSVA Power Global Adjustment Sub-account at this time, then it may wish to consider clearing the remaining Group 1 accounts as well in order to maintain symmetry.

All of which is respectfully submitted.