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BY EMAIL

February 4, 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: Kitchener-Wilmot Hydro Inc.
2011 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2010-0094**

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 Kitchener-Wilmot Hydro Inc. and to all other registered parties to this proceeding.

In addition please remind Kitchener-Wilmot Hydro Inc. that its Reply Submission is due by February 24, 2011.

Yours truly,

Original Signed By

Kelli Dobson
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2011 ELECTRICITY DISTRIBUTION RATES

Kitchener-Wilmot Hydro Inc.

EB-2010-0094

February 4, 2011

**Board Staff Submission
Kitchener-Wilmot Hydro Inc.
2011 IRM3 Rate Application
EB-2010-0094**

Introduction

Kitchener-Wilmot Hydro Inc. ("KWHI") filed an application (the "Application") with the Ontario Energy Board (the "Board") on September 30, 2010 under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that KWHI 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 KWHI.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application model by KWHI. 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, KWHI confirmed that they were errors and provided the corrected data. Board staff will make the necessary corrections to KWHI'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 KWHI. Pursuant to Guideline G-2008-0001, updated on July 8, 2010, Board staff notes that the Board will update the applicable data at the time of this Decision based on any available updated Uniform Transmission Rates.

For 2011 rates, KWHI proposes to increase the smart meter adder to \$2.00 per meter per month from the existing \$1.00. Board staff notes that the total bill impact attributable solely to the proposed funding adder of \$2.00 per meter per month (keeping all other proposals in the application model as filed) is an increase of 1.0% for the residential class. The total bill impact for all elements of the application for a typical residential customer including a funding adder of \$2.00 is an increase of 1.1%. Board staff has no concerns with the data supporting the smart meter model.

In response to interrogatory #2 from Board staff, KWHI provided a revised version of Sheet F1.1 Z-Factor tax changes. The Regulatory Taxable Income entry for 2009 was revised to \$7,700,393 to reflect the Revenue Requirement Work form from the Board Decision in EB-2009-0267 (KWHI's 2010 cost of service application). Staff notes that the use of the revised data is consistent with the Board's instructions issued on August 20, 2010 for the 2011 IRM3 model.

This change would result in a tax savings in 2011 of \$535,799 representing a decrease of \$180,331 from the original 2011 IRM3 application.

Board staff makes detailed submissions on the following matter:

- Review of Deferral and Variance Accounts

Review of Deferral and Variance Accounts

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 total 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.

KWHI's total deferral and variance account balance as of December 31, 2009 is a debit balance of \$2,334,211. The threshold calculation is \$0.001254 /kWh. KWHI has requested that only the global adjustment sub-account be disposed at this time, notwithstanding the fact that the threshold has been exceeded. The Group 1 balance excluding the global adjustment is a credit balance of \$1,479,892 and the global adjustment is a debit balance of \$3,814,103. KWHI has requested that the disposition of the Group 1 balance excluding the global adjustment sub-account be deferred until the filing of its 2012 IRM application in order to minimize rate impacts on its RPP customers due to (i) the removal of two credit Deferral and Variance Account rate riders

(that are due to expire on April 30th, 2012) and (ii) the bill impacts stemming from the increase to Hydro One's Transmission Rates effective January 1st 2012.

Board staff submits that KWHI's proposal to not dispose of its Group 1 deferral accounts but to dispose of its global adjustment sub-account balance in this proceeding is not consistent with the policy outlined in the EDDVAR Report. Board staff submits that one option is that the Board could dispose of KWHI's Group 1 deferral account balances and the global adjustment sub-account balance in this proceeding but over a 2 year period. This will address KWHI's concerns of minimizing rate volatility on May 1, 2012. The total bill impact for all elements of the application for a typical residential customer as applied for by KWHI is an increase of 1.1%. The disposition of all Group 1 deferral account balances over a two year period reduces this increase to 0.8%.

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.

All of which is respectfully submitted.