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Ontario

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: Hydro Hawkesbury Inc.
2011 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2010-0090

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 Hydro Hawkesbury Inc. and to all other registered parties to this proceeding.

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

Yours truly,

Original Signed By

Lawrie Gluck
Analyst, Applications & Regulatory Audit

Encl.

Ontario

ONTARIO ENERGY BOARD

BOARD STAFF SUBMISSION

2011 ELECTRICITY DISTRIBUTION RATES

HYDRO HAWKESBURY INC.

EB-2010-0090

February 4, 2011

Introduction

Hydro Hawkesbury Inc. (“Hawkesbury”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”), received on November 12, 2010, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Hydro Hawkesbury charges for electricity distribution, to be effective May 1, 2011. The Application is based on the 2011 3rd Generation Incentive Regulation Mechanism. Hawkesbury filed an updated to its Application on December 2, 2010.

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 Hydro Hawkesbury.

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

Board staff only makes submissions in regards to Deferral and Variance Account Disposition.

Deferral and Variance Account Disposition

Background

For purposes of the 2011 IRM applications, the Report of the Board on Electricity Distributors’ Deferral and Variance Account Review Initiative (the “EDDVAR Report”) requires a distributor to determine the total 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.

While Hawkesbury noted that the Group 1 Account balance is over the preset disposition threshold of $0.001/kWh, Hawkesbury proposed to defer the disposition of its Group 1 Deferral and Variance Account balances as of December 31, 2009 (a debit of $453,784) until its next IRM application.

Hawkesbury indicated that the global adjustment sub-account is the major contributor to the balance in the Group 1 Deferral and Variance Accounts. Hawkesbury noted that the balance for the Group 1 Deferral and Variance Accounts excluding the global adjustment sub-account is $5,936. Hawkesbury stated that this amount is immaterial and therefore disposition is not worth pursuing.

Hawkesbury also noted that the global adjustment sub-account balance decreased significantly as of September, 2010 and therefore, there is no need to dispose of the balance at this time.

Board staff notes that the 2011 Deferral and Variance Account Workform was not filed with the Application. Board staff requested in Interrogatory No. 1 that Hawkesbury file the above noted Workform. Hawkesbury complied with this request.

Submission

Board staff has reviewed Hawkesbury's 2011 Deferral and Variance Account Workform and have been unable to verify the $181,196 debit balance in Account 1588 – RSVA – Power (excluding the global adjustment sub-account). Board staff notes that the opening amounts for all the Group 1 Deferral and Variance Accounts, entered on Sheet D1.6 of the 2011 Deferral and Variance Account Workform, have been adjusted by the amounts approved for disposition in Hawkesbury's 2010 Rate Application (EB-2009-

0186). However, the balance in Account 1588 – RSVA – Power (excluding the global adjustment sub-account) was adjusted by an amount that is significantly different from the approved amount for disposition in EB-2009-0186. Board staff requests that Hawkesbury comment on the adjustments it made to the noted account in its Reply Submission. Board staff also notes that when the Board-approved disposition amount for Account 1588 – RSVA – Power (excluding the global adjustment sub-account) is used as the adjusting amount, the preset disposition threshold of $0.001 per kWh is not exceeded.

Notwithstanding the above, Board staff notes that the EDDVAR Report is clear on the policy regarding the review and disposition of Deferral and Variance Account balances.

The Board states on Page 10 of the EDDVAR Report, that:

> "During the IRM plan term, the Board has decided that a preset disposition threshold of $0.001 / kWh is appropriate. In the Board's view, this level would lead to a more systematic approach to the disposition of the revised Group 1 Account balances. This systematic approach should mitigate intergenerational inequities and the accumulation of large account balances. Further, this disposition threshold level should enhance the distributor's ability to manage its cash flow. When this threshold is exceeded, a distributor will file a proposal for the disposition of all revised Group 1 Account balances (including carrying charges)."

Board staff notes that the 2009 audited balances in Hawkesbury's Group 1 Deferral and Variance Accounts result in a total claim that is well in excess of the Board prescribed threshold. Board staff submits that although the global adjustment sub-account balance may have been significantly reduced as of September, 2010, this balance is unaudited and does not provide evidence that this trend may continue for the remainder of 2010.

For the reasons set out above, pending confirmation from Hawkesbury that the balance in Account 1588 – RSVA – Power (excluding the global adjustment sub-account) is correct, Board staff submits that in order to maintain a systematic approach to Group 1 Deferral and Variance Account disposition, the Board should direct Hawkesbury to dispose of its Group 1 Deferral and Variance Account balances as of December 31, 2009.

All of which is respectfully submitted.