

**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



**BY EMAIL**

February 8, 2008

Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
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  
Submissions on Issues 4.2 and 8.4**

Please see attached Board staff's submission on Issues 4.2 and 8.4 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**

**Issues 4.2 and 8.4**

**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).

On January 10, 2008 the Board denied the request for Interim Rates.

Hydro Ottawa's application also included an alternative mechanism to recover the applied for "revenue deficiency" which was to establish a deferral account to capture the revenue deficiency amounts for subsequent recovery.

Hydro Ottawa filed the Settlement Proposal in this proceeding on January 23, 2008. The Settlement Proposal indicated that Hydro Ottawa and the other parties achieved a complete settlement of 28 issues, an incomplete settlement of one issue (4.2 Are the proposed new variance and deferral accounts for the test year appropriate?), a partial settlement of one issue (3.4), and no settlement of one issue (8.4 Is it appropriate that Hydro Ottawa implement a mechanism to recover revenues not recovered in the January to April 2008 "Deficiency Period"?). The Settlement Proposal was approved by the Board with some minor adjustments on January 24, 2008. Issue 3.4 was the subject of the oral hearing held on February 4, 2008.

Board staff concurs with Hydro Ottawa in that Issue 4.2 and Issue 8.4 are now, in effect, two parts of a single issue: the use of a deferral account (Issue 4.2) as a mechanism to recover the revenue deficiency arising in the first four months of the Test Year (Issue 8.4). Hydro Ottawa and the other parties agreed that these two issues should be addressed by means of written argument.

Board staff relies on the submissions made on December 21, 2008 by Board staff regarding the request for interim rates.

Accordingly, Board staff submits that it appears that the request by Hydro Ottawa for a mechanism to recover a revenue deficiency 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.

Hydro Ottawa submits 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 possible that Hydro Ottawa could collect revenues in excess of the requested revenue requirement if there is higher electricity consumption in January to April of 2009 as compared to the forecast load, based on January to April of 2008, which is used to establish rate for the 2008 rate year.

Hydro Ottawa has not demonstrated how the revenue deficiency occurs in this situation. If no deficiency can be clearly demonstrated, there appears to be no reason to establish the requested mechanism or deferral account

While it can be argued that there is a mismatch between the load forecast for the test year and the actual load experienced in the rate year, the Board needs to be satisfied that the mismatch would create significant harm to either the distributor or customer. With consumption levels affected by weather, economic growth and conservation efforts, it is not clear that this 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. As noted by the Board in its January 10, 2008 decision, Hydro Ottawa chose to abide by the 2<sup>nd</sup> Generation IRM mechanism and did not apply for a Z-factor or an off-ramp as allowed in the IRM plan.

### **Changing the Rate Year**

Board staff submits that the request for a mechanism to recover a purported revenue deficiency for the period before the May 1 date set by the Board (and, the related request for the deferral account) 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 method 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 3<sup>rd</sup> 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 address the impacts of this proposal on these Board processes and on other distributors.

Board staff note that the request to use a deferral account to record revenues in a purported "deficiency period" is essentially the same as the issue of declaring rates interim as of January 1, 2008 to recognize this deficiency period concept. Hydro Ottawa has failed to address why the Board's Decision dated January 10, 2008, denying interim rates, does not apply to the present request as the end result appears to be the same.

All of which is respectfully submitted.