**Centre Wellington Hydro Ltd.**

**ED-2002-0498**

**2012 3rd Generation Incentive Rate Mechanism**

**Electricity Distribution**

**Rate Application**

**EB-2011-0160**

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**Manager’s Summary**

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O.1998, c.15 (Sched. B)

AND IN THE MATTER OF an application by Centre Wellington Hydro Ltd. for an Order or Orders pursuant to section 78 of the *Ontario Energy Board Act, 1998* for 2012 distribution rates and related matters.

**APPLICATION**

1. The Applicant is Centre Wellington Hydro Ltd. ("Centre Wellington"). Centre Wellington is a licensed electricity distributor operating pursuant to license ED-2002-0498. Centre Wellington distributes electricity to approximately 6,478 customers in the municipalities of the Town of Fergus and the Village of Elora.

1. Centre Wellington hereby applies to the Ontario Energy Board (the "Board") for an order or orders made pursuant to Section 78 of the *Ontario Energy Board Act, 1998,* as amended, (the "OEB Act") approving just and reasonable rates for the distribution of electricity based on a 2012 incentive regulation mechanism (“IRM”) application, effective May 1, 2012.
2. Specifically, Centre Wellington hereby applies for an order or orders granting distribution rates updated and adjusted in accordance with Chapter 3 of the Filing Requirements for Transmission and Distribution Applications updated June 22, 2011, including the following:

a. the disposition of deferral and variance account principal balances as at December 31, 2010 along with the carrying charges projected to April 30, 2012 in accordance with the Report of the Board on Electricity Distributors’ Deferral and Variance Account Review Initiative (EDDVAR) – July 31, 2009. No disposition of Group 1 accounts is being requested as the threshold test was not met as shown on sheet 10 of the Rate Generator;

b. approval for an adjustment to the retail transmission service rates as provided in Guideline (G-2008-0001) on Retail Transmission Service Rates – October 22, 2008 (Revision 3.0 June 22, 2011);

c. approval of incremental capital funding for the upgrade and replacement of distribution stations which is forecasted to take place over a five year period commencing in 2012 with a total estimated cost of $6,094,000 of which $1,363,400 is forecast for 2012.

d. the disposition of account 1562-Deferred PILs in accordance with the Board Decision and Order EB-2008-0381 dated June 24, 2011;

e. Recovery of lost revenues (LRAM/SSM) of $104,881.75 related to conservation and demand management programs implemented by Centre Wellington, and verified through a third party review;

4. The revenue-cost ratio adjustments approved in Centre Wellington’s 2009 re-basing were completed in the 2011 rates, so no further adjustments are required in 2012.

5. Centre Wellington’s current Smart Meter rate adder is $2.50 with a sunset on April 30, 2012. Please note, with the smart meter implementation being close to completion, Centre Wellington will be making a separate application in the near future for approval of Smart Meter Rate Riders effective May 1, 2012 for Board-approved smart meter implementation costs based on a prudence review.

6. This Application is supported by written evidence that may be amended from time to time, prior to the Board’s final decision on this Application.

7. The Applicant requests that, pursuant to Section 34.01 of the Board’s *Rules of Practice and Procedure*, this proceeding be conducted by way of written hearing.

6. The Applicant requests that a copy of all documents filed with the Board in this proceeding be served on the Applicant as follows:

Centre Wellington Hydro Ltd.

730 Gartshore Street

P.O. Box 217

Fergus, ON N1M 2W8

Attention:

Florence Thiessen, CGA

Vice President / Treasurer

thiessen@cwhydro.ca

Telephone: (519) 843-2900 ext. 225

DATED at Fergus, Ontario, this 28th day of September, 2011.

Centre Wellington Hydro Ltd.

 *Original Signed by:*

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

D. Sherwood – President/Secretary

Centre Wellington Hydro Ltd.

**Manager’s Summary**

Centre Wellington hereby submits a complete application for the approval of distribution rates proposed to be effective May 1, 2012 under the 2012 electricity distribution incentive regulation mechanism (“IRM”). Centre Wellington filed a comprehensive cost of service rebasing application for May 1, 2009 rates, proceeded by way of a written hearing, and had rates approved by the Ontario Energy Board (“OEB”) under file number EB-2008-0225. Most recently, Centre Wellington submitted and had approved by the OEB an IRM application for rates effective May 1, 2011 under file number EB-2010-0072. For purposes of the 2012 IRM application, Centre Wellington has relied upon the following OEB issued documents and guidelines:

1. Chapter 3 of the Filing Requirements for Transmission and Distribution Applications updated on June 22, 2011 (“Filing Requirements”)
2. Guideline (G-2008-0001) on Retail Transmission Service Rates – October 22, 2008 (Revision 3.0, June 22, 2011) known as “RSTR Guidelines”
3. Guideline (G-2008-0002) on Smart Meter Funding and Cost Recovery – October 22, 2008 (“SM Funding”)
4. Report of the Board on Electricity Distributors Deferral and Variance Account Review Initiative – July 31, 2009 (“EDDVAR”).
5. Guidelines for Electricity Distributor Conservation And Demand Management EB-2008-0037, dated March 28, 2008

Listed below are the items to be addressed in the specific sections of Manager’s Summary as well as being reflected in the IRM Models:

1. Current and Proposed Deferral and Variance Account Rate Riders
2. Tax Sharing
3. Price Cap Index
4. Retail Transmission Service Rates
5. Incremental Capital Module
6. Deferred Payment in Lieu of Taxes (PILs)
7. Lost Revenue Adjustment Mechanism Rate Rider
8. Rate Generator
9. **Current and Proposed Deferral and Variance Account Rate Riders**

Centre Wellington currently has four (4) distinct rate riders in effect. Three of those Riders were approved as volumetric rate riders by the OEB as part of Centre Wellington’s 2009 COS, 2010 IRM, and 2011 IRM rate applications. Additionally, Centre Wellington has a rider for the recovery of Late Penalty Litigation Costs. The rate rider approved as part of the 2009 COS has a sunset date of April 30, 2013 while the other three expire on April 30, 2012.

Centre Wellington completed the D&VA worksheets included in the 2012 Rate Generator model. The balance of $ -45,231 does not exceed the materiality threshold of $.001/kWh as defined in the EDDVAR report for Group 1 accounts, which includes 1580, 1584, 1586 and 1588 but excludes 1521 and 1562, and calculated on sheet 10 of the rate generator model, does not warrant disposition at this time.

However, Centre Wellington is requesting approval to dispose of the balance in account 1562 – Deferred PILs of $155,898.44 in accordance with Sheet 12 of the Rate Generator model. Centre Wellington proposes to dispose of the balance over a one (1) year period using the billing determinants in the Rate Generator Model. Account 1562 – PILs is discussed in Section 6 of this Manager’s Summary to provide the necessary details and schedules to support the disposition of this account.

Centre Wellington is not requesting disposition of the December 31, 2010 balance in the account 1521-Special Purpose Charge Assessment Variance Account in the amount of $22,258.82 at this time as the sunset date on this Rider was April 30, 2011. The expenses and recovery for this Rider to December 31, 2010 has been removed from sheet 9 of the Rate Generator so it would not calculate as part of the 1562 rate rider request. The un-audited balance of account 1521 for SPC as at June 30, 2011was $2,335.26, Centre Wellington reserves the right to dispose of this balance in a future Cost of Service or IRM application.

1. **Tax Sharing**

For 2012 the Sharing of Tax Savings is calculated as a relatively immaterial amount of -$2,492. Centre Wellington requests Board approval to record the -$2,492 in account 1595 for disposition in a future rate application. The 2012 Tax Sharing Workform is included with this application at Tab 2.

1. **Price Cap Adjustment**

Based on the current price cap parameters, the Rate Generator model reflects a Price Cap Index adjustment of 0.18%. That calculation is based on a price escalator of 1.3%, less a productivity factor of 0.72%, and less a stretch factor of 0.4%. Centre Wellington understands the model will be adjusted at a later date to reflect the updated price escalator.

1. **Retail Transmission Service Rates**

Centre Wellington is charged retail transmission service rates by Hydro One Networks, and in turn has established approved rates to charge customers in order to recover those expenses. The OEB has provided a model to compare the current retail transmission costs and retail transmission revenues to the projected transmission costs. Centre Wellington has completed the model and included the proposed RTSR-Network and RTSR-Connection rates on sheets 15 and 16 of the Rate Generator Model, respectively. The rates for the RTSRs is based on the Non-adjusted for losses kWhs by customer class for 2010 as reported in the RRR for the period ended December 31, 2010 as specified by the OEB on sheet 4 of the RTSR model. Centre Wellington understands the model will be updated with any changes to Hydro One’s transmission service rates. The RTSR model is included as Tab 3 in this application.

1. **Incremental Capital Module**

Centre Wellington acquired the services of Costello Associates Inc. to provide supporting technical information and budgetary estimates for an asset condition assessment of six of its Distribution Stations and to determine the feasibility of a new SCADA system. A detailed report with findings and recommendation was issued to Centre Wellington in February 2011 and is included at Tab 4 of this rate application.

In this application Centre Wellington has completed the Incremental Capital module provided by OEB. The Threshold Test produced a value of $851,349. Centre Wellington’s total non-discretionary capital budget for 2012 is $2,178,300 which includes $1,363,400 to rehabilitate Fergus MS#2 ($1,199,400) and to install fully functional SCADA for Centre Wellington’s six (6) Municipal Sub-stations ($164,000). Centre Wellington’s Threshold Capex is calculated as $851,349 in the Incremental Capital Model which results in $1,326,951 of Incremental Capital CAPEX when compared to the total Capital Budget for 2012. Centre Wellington is therefore requesting approval of an incremental revenue requirement of $128,358 to be recovered from customers in a rate rider over a one year period. Centre Wellington has chosen the option of a variable rate rider for the recovery period as shown on Sheet “F1.2 Incr Cap RRider Opt B Var”. A copy of the Incremental Capital Module is included with this rate application at Tab 4.



1. **Payment in Lieu of Taxes (PILs)**

Centre Wellington has reviewed the evidentiary record of the combined proceeding EB-2008-0381, as well as EB-2010-0132 and the letter from the Board dated September 13, 2011 regarding disposition of PILs. Centre Wellington has completed the SIMPIL models based on the Halton Hills models.

For account 1562, Centre Wellington is showing a variance in cell BX40 of Sheet 9 in the IRM Rate Generator Model vs the RRR reported value for December 31, 2010. This variance reflects the difference between the methodology approved in the combined proceeding as compared with the methodology used by Centre Wellington during the period of 2001 and 2005, which was believed to be consistent with the required methodology of the time.

Centre Wellington is applying to recover the total claim of $155,898.44 as provided on Sheet 10 of the Rate Generator for account 1562. This amount includes principal to December 31, 2010 of $115,868.06, interest to December 31, 2010 of $37,764.02, plus estimated interest for 2011 of $1,703.06 and Jan1 – April 30, 2012 of $563.10.

Centre Wellington proposes to collect the PILs balance over a one year period from the rate classes based on the proportion of Distribution Revenue for each customer class included on Sheet 10 of the Rate Generator Model and using the Billing Determinants also from sheet 10 of that model and the rate rider as calculated on sheet 12.

The following Continuity Schedule provides the summary of the Board Approved PILs amounts for the Rate Adjustment Models, adjustments from the annual SIMPIL models, PILs billed to customers and the related carrying charges at the Board prescribed interest rates for the period October 1, 2001 to December 31, 2006.



The following outlines the argument for using the maximum tax rate:

According to the Board Decision on Issue #9 of the Combined Proceeding for EnWin Utilities Ltd, Halton Hills Hydro Inc. and Barrie Hydro Distribution Inc. EB-2008-0381, the Maximum Rate was to be used in all cases for true-up purposes even thought the actual rate was lower. Based on this it is reasonable to assume that the Maximum Rate should be used since the Board said the following in their Decision with regards to other Distributors.

ALL OTHER DISTRIBUTORS

Following the approach used in the Regulatory Asset proceeding, the Board will establish a process whereby the conclusions from this proceeding may be applied to the remaining distributors.

Each remaining distributor will be expected to apply for final disposition of account 1562 with its next general rates application (either IRM or cost of service). If the distributor files evidence in accordance ***with all the various decisions*** made in the course of this proceeding, including the use of the updated model referenced above and certifies to that effect, the distributor may expect that the determination of the final account balance will be handled expeditiously and in a largely administrative manner.

Distributors are of course able to file on a basis which differs from that which is contemplated by the decisions in this proceeding. In that event, the application can be expected to take some time to process, and therefore, should not be made as part of an IRM application."

In referring to the words "various decisions made in the course of this proceeding", the Board decided a certain way to handle the tax rates as per Issue #9. To not following the Board Decision on this issue would not promote the statement of the Board in their Decision that "the distributor may expect that the determination of the final account balance will be handled expeditiously and in a largely administrative manner"

In addition, a review of the background on Issue #9 in the Board Decision indicates that Board staff suggested the effective tax rate method should be used to determine the tax rate for the true-up purposes but this was denied by the Board.

It would appear the Board simplified the process by choosing the maximum tax rate for true-up purposes. To have each LDC come up with their own rate will not allow the Board to deal with issue "expeditiously and in a largely administrative manner."

Using the maximum tax rates is consistent with KPMG's view and the views of other parties working on this issue. A review of the Halton Hills, Barrie and EnWin models indicate they all used the Maximum Tax rate even when their taxable income was at zero in some cases. In addition, a discussion with Halton Hills staff involved with the 1562 proceeding indicates it would be consistent with the outcome of the proceeding to assume the maximum tax shown on page 17 of the Board's Decision.

The information requested by the Board to support Centre Wellington’s disposition amount is included in Tab 5 of this rate application and includes the following appendices related to the disposition of Account 1562:

 Appendix A 1562 Summary Continuity Schedule

 Appendix B 2001-2012 Calculation of PILs Collected, Approved Amounts

Appendix C 2001 SIMPIL Model

 Appendix D 2002 SIMPIL Model

 Appendix E 2003 SIMPIL Model

 Appendix F 2004 SIMPIL Model

 Appendix G 2005 SIMPIL Model

 Appendix H 2001 OEB Decision

 Appendix I 2002 OEB Decision

 Appendix J 2004 OEB Decision

 Appendix K 2005 OEB Decision

 Appendix L 2006 OEB Decision

 Appendix M 2002 Rate Adjustment Model

 Appendix N 2004 Rate Adjustment Model

 Appendix O 2005 Rate Adjustment Model

 Appendix P 2001 – 2002 Proxy Model

 Appendix Q 2001 Audited Financial Statements, Tax Returns and Assessment

 Appendix R 2002 Audited Financial Statements, Tax Returns and Assessment

 Appendix S 2003 Audited Financial Statements, Tax Returns and Assessment

 Appendix T 2004 Audited Financial Statements, Tax Returns and Assessment

 Appendix U 2005 Audited Financial Statements, Tax Returns and Assessment

 Appendix V 2006 Audited Financial Statements, Tax Returns and Assessment

1. **Lost Revenue Adjustment Mechanism (“LRAM”) & Shared Savings Mechanism**

Centre Wellington is proposing recovery of lost revenue in the amount of $104,881.75. Centre Wellington submits the documents in support of its claim prepared by Burman Energy Consulting Group Inc. which validates the participation levels, the kW and kWh impact for each program for each class and a calculation of the impact of the CDM programs on distribution revenue. The documents and supporting material is contained in Tab 6 of this rate application.

A rate rider has been calculated utilizing the 2009 billing determinants for each rate class. Centre Wellington is proposing a 1 year disposition. The table below indicates the proposed rate rider per rate class.



1. **Rate Generator**

A copy of the Rate Generator Model is included at Tab 7 of this rate application. Using the 2011 IRM3 rate generator, the total bill impacts for Centre Wellington customer classes are all less than 10%. The Bill Impacts for a Residential customer using 800 kWh’s per month and for a General Service less than 50 kW customer using 2,000 kWh’s per month is included in part a) of this section. The Tariff Sheets created by the Rate Generator for each of the rate classes are shown in part b) of this section.

1. **Bill Impacts**

Residential - 800 kWh per month



General Service less than 50kW – 2,000 kWh per month



1. **Tariff Sheets**

The following Tariff Sheets for each of the Rate Classes has been created using the Rate Generator Model. Centre Wellington has changed some of the wording used on the 2011 Tariff sheets to identify the Provincial Benefit as Global Adjustment and has added Ontario Clean Energy Benefit in the “Application” section for each rate class.



















