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BY EMAIL

October 11, 2011

Board Secretary
Ontario Energy Board
2300 Yonge Street, Ste. 2701
P. O. Box 2319
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: Enersource Hydro Mississauga
Application for the Disposition of Group 1 Deferral and Variance Accounts
Board File No. EB-2011-0266

Please find attached the Board Staff submission for the above proceeding. Please forward the attached document to Enersource Hydro Mississauga.

Yours truly,

Original Signed By

Georgette Vlahos
Case Manager

Attach.

Ontario

ONTARIO ENERGY BOARD

BOARD STAFF SUBMISSION

Application for the Disposition of Group 1 Deferral and Variance Accounts

Enersource Hydro Mississauga

EB-2011-0266

October 11, 2011

Introduction

Enersource Hydro Mississauga Inc. ("Enersource" or the "Applicant") filed an application on August 17, 2011 requesting approval to dispose of Group 1 Deferral and Variance account balances as defined by the Board's *Report on Electricity Distributors' Deferral and Variance Account Review Initiative* (the "EDDVAR Report"), dated July 31, 2009. On September 9, 2011, the Board issued a Notice of Application and Procedural Order establishing dates for interrogatories and submissions.

This submission reflects observations arising from Board staff's review of Enersource's evidence and is intended to assist the delegated authority in adjudicating on Enersource's application.

Background

On November 27, 2009, Enersource filed a stand-alone deferral and variance account application (EB-2009-0405), applying for the approval to dispose of the September 30, 2009 balance of account 1588 (RSVA Power including the global adjustment sub-account) and the December 31, 2008 balances of the remaining Group 1 Deferral and Variance accounts.

In that application, Enersource requested to include the 1588 global adjustment sub-account rate rider as part of the monthly Provincial Benefit (commodity) line on the customer's bill as opposed to the delivery line. Enersource stated that its billing system was capable of applying a global adjustment rate rider to non-RPP customers via the Provincial Benefit Charge within the next billing cycle. To change its bills to be able to reflect the global adjustment rate rider within a rate class was a more challenging process that would have taken at least six months to implement. In its decision, the Board approved Enersource's allocation and disposition methodology including the bill presentation as proposed by Enersource.

On October 15, 2010, Enersource filed its 2011 Incentive Regulation Mechanism ("IRM") rate application (EB-2010-0078). In that application, Enersource sought the disposition of certain Group 1 Deferral and Variance account balances as at December 31, 2009. The balances were in a credit position. On January 13, 2011, Enersource submitted a letter to inform the Board that, subsequent to the filing of its application, a comprehensive review of its Group 1 Deferral and Variance accounts had commenced in order to ensure their treatment was in accordance with the requirements of the

Board's Accounting Procedures Handbook.[1] Also in this letter was a request to withdraw its application for rate riders to refund to ratepayers the disposition of these balances. Enersource proposed to file a separate application at a later date to dispose of the Group 1 Deferral and Variance account balances.

In the EB-2010-0078 decision, the Board approved Enersource's request to withdraw the disposition of the subject account balances and directed Enersource to make an application for the review and disposition of its Group 1 account balances no later than in its 2012 rate application.

The Application

In Enersource's current 2012 Deferral and Variance account application (EB-2011-0266), Enersource requested that the Board review and approve the disposition of December 31, 2010 Group 1 account balances and the related carrying charges up to October 31, 2011.

Enersource stated that its application relied on the EDDVAR Report in terms of general filing and account-specific filing guidelines for the disposition of Group 1 Deferral and Variance account balances. Enersource also used the Board's prescribed interest rates to calculate the carrying charges on the account balances.

Enersource requested disposition of the Group 1 account balances by way of a streamlined written hearing process. The Applicant also requested a final rate order by mid-October in order to ensure the implementation of the disposition by November 1, 2011.

The Group 1 account balances and carrying charges, as at December 31, 2010 proposed for clearance are provided in the table to the right.

Account	Description	Balance at Dec-31-10	Interest to Oct-31-11	Total
1550	Low Voltage	2,000,049	36,108	2,036,157
1580	RSVA Wholesale Market Service Charge	(10,401,473)	(193,111)	(10,594,584)
1584	RSVA Retail Transmission Network Charges	(6,212,255)	(117,585)	(6,329,840)
1586	RSVA Retail Transmission Connection Charges	(5,293,496)	(101,195)	(5,394,691)
1588	RSVA Power (Excluding Global Adjustment)	3,755,373	63,179	3,818,552
1588	RSVA Power (Global Adjustment Sub-account)	(22,821,333)	(392,615)	(23,213,948)
1595	Recovery of Regulatory Asset Balances	(203,108)	(79,822)	(282,930)
	Total Net Refund	**(39,176,243)**	**(785,041)**	**(39,961,284)**

[1] EB-2011-0266 Manager's Summary, Page 1

The disposition of Group 1 Deferral and Variance account balances, excluding the global adjustment sub-account balance, represents a refund of $16,747,337 to all customers. The disposition of the global adjustment sub-account balance of $23,213,948 represents a refund to non-RPP customers.

Enersource proposed to dispose of the balances shown above to the appropriate customer classes via a four-year rate rider for both the global adjustment sub-account and the remaining accounts.

For all Group 1 accounts, excluding 1595 (2009) and 1588 global adjustment sub-account, Enersource allocated the balances to rate classes based on total kWh for 2010 as reported in Enersource's April 30, 2011 Reporting and Record Keeping Requirements Filing to the Board. The balance of account 1595 (2009) at December 31, 2010 has been excluded from this application because the corresponding rate riders are in effect until January 31, 2012. The amount recorded in the above table being sought for disposition for account 1595 is the residual balance from 2008. This account has been allocated to rate classes in proportion to the recovery share as established when rate riders were implemented[2]. The global adjustment sub-account balance has been allocated based on 2010 actual non-RPP kWh.[3]

If the application is fully approved as filed, the monthly bill for a residential customer who consumes 800 kWh per month will decrease by about $0.49. The monthly bill for a general service customer consuming 2000 kWh per month and having a monthly demand of less than 50 kWh would decrease by about $1.22.

Submissions

The Quantum

Board staff notes that Enersource's regulatory trial balances in the OEB Reporting and Record Keeping Requirements Filing for 2.1.7 for December 31, 2010 does not reconcile to the December 31, 2010 audited financial statements for account 1588. According to Enersource, the difference of approximately $499,000 represents the impact of the completion of the comprehensive review.[4] Enersource also claims that

[2] EB-2011-0266 Application, Tab 3, Schedule 4, Page 1
[3] EB-2011-0266 Application, Tab 2, Page 5
[4] EB-2011-0266 Application, Tab 2, Page 2

pursuant to the Canadian Institution of Chartered Accountants Handbook Section 1506, the December 31, 2010 audited financial statements are not required to be adjusted for immaterial amounts, and Enersource's external auditor has concurred that this difference is immaterial.

Board staff asked Enersource to provide a reconciliation identifying the factors which contributed to this difference. Enersource noted that, with respect to original adjustments made in 2010 which included Retailer True-Up, Rebates Payable Adjustments, Energy True-Up and GA True-Up, Enersource believed that these differences would have been refunded to, or collected from, customers through future rates. However, as a result of a comprehensive review completed in 2011, Enersource determined that this would not occur as these amounts are related to a period prior to September 30, 2009, the date for which the Board had already issued a final decision and order to dispose of the balances in those Group 1 accounts (EB-2009-0405). Therefore, in Enersource's 2011 Financial Statements an entry was made to remove the net adjustment of $499,000 from Account 1588. To ensure customers did not receive less of a credit, Enersource adjusted the 2010 regulatory balance for these items as well.[5] Board staff has reviewed Enersource's response and submits that it is reasonable.

Board staff has reviewed all remaining balances for Group 1 deferral and variance accounts being proposed for disposition and submits that all figures reconcile to those reported in Enersource's 2.1.7 Record Keeping and Reporting Requirements and Audited Financial Statements and do not deviate from what was initially proposed by Enersource.

Bill Presentation

As noted previously, in EB-2009-0405, the Board approved Enersource's request to include the global adjustment sub-account rate rider as part of the Provincial Benefit (commodity) line on the customer's bill. Board staff has queried Enersource with respect to how the global adjustment sub-account rate rider, if approved by the Board, will be represented on the customer's bill for the current application. Enersource has confirmed that its billing system has been upgraded and can now facilitate the inclusion of the global adjustment sub-account rate rider in the delivery line of the bill.

[5] EB-2011-0266 Interrogatory Responses, Page 3

Disposition Period

Board staff notes that Enersource's application is not consistent with the guidelines outlined in the EDDVAR Report with respect to the standard disposition period for Group 1 accounts (i.e. one year). Enersource has requested a four-year disposition period citing that refunding the balance of $39,961,284 over a shorter time frame may have a financial impact on the company and could pose a significant strain on its cash flows. Enersource filed a response to Board staff interrogatories addressing this matter. Enersource calculated total monthly bill impacts for one-year, two-year and three-year disposition periods with an implementation date of November 1, 2011.

Enersource stated that a one year disposition period will result in not only a cash outflow of more than 30% of Enersource's total distribution revenue, but it may also have a financial impact on the company and put a strain on its cash flows. Board staff notes that the balances in the subject accounts represent over recoveries on the part of the distributor and in the normal course should be available to be refunded over a fairly short time frame.

While recognizing the value of the EDDVAR Report in guiding decisions with respect to the disposition of deferral and variance accounts, Board staff notes that in the past, the Board has made decisions which deviate from the EDDVAR Report if it deems it in the public interest to do so. For example, in Guelph Hydro's 2010 IRM application (EB-2009-0226), Guelph Hydro requested to dispose of Group 1 Accounts over a four-year period citing that disposition over a one-year period would negatively impact its cash flows. In that proceeding, Board staff submitted that while some volatility in customer bills may occur, it is in the best interest of customer's to dispose of account balances over a shorter time frame so as to reduce intergenerational inequity. The Board found that Guelph's rationale for proposing to extend the disposition was reasonable, but believed that a four year disposition period was too long. The Board found that a disposition period of two years was appropriate.

In the current application, with respect to the global adjustment sub-account (applicable only to non-RPP), Board staff notes that customer migration might occur in the low volume customer groups. In line with the example above, Board staff is of the view that for this group of customers, there would be a benefit to dispose of the balance over a shorter period of time in order to reduce intergenerational inequity. Regarding the remaining Group 1 account balances, Board staff notes that using a disposition period as long as four years would also exacerbate intergenerational inequities. Board staff however recognizes that some volatility in electricity bills may result from adopting a shorter disposition period. Board staff is of the view that the Board should strike a balance between reducing intergenerational inequities and mitigating rate volatility.

Staff recommends that a two-year disposition period should be adopted for all Group 1 accounts. Enersource did not provide bill impacts for a shorter disposition period assuming a February 1, 2012 effective and implementation date. Board staff has produced the following rough estimates of bill impacts assuming a two year disposition period. Enersource may wish to confirm these in its reply submission. If the application is approved by the Board with an effective date of February 1, 2012, the monthly bill for a residential customer who consumes 800 kWh per month will increase by about $0.57. The monthly bill for a general service customer consuming 2000 kWh per month and having a monthly demand of less than 50 kWh would increase by about $1.63. Board staff notes that although the total of Group 1 accounts for this application calls for a credit back to customers, with an implementation date of February 1, 2012, customer's will see a slight increase on their bills due to the expiration of the current rate rider for deferral and variance accounts, ending January 31, 2012.

Effective and Implementation Date

Board staff notes that Enersource initially requested for a final Rate Order by mid-October in order to ensure the implementation of the disposition by November 1, 2011. Board staff notes that the August 17, 2011 filing date does not allow for sufficient time to issue a decision by the requested date. Enersource confirmed in response to a Board staff interrogatory that they are not seeking interim rates and as such, requested an effective and implementation date of February 1, 2012, should the Board not reach a decision by mid-October. Board staff notes that the February 1, 2012 effective date will align with the expiration of current rate riders. Board staff agrees with Enersource, that should the November 1, 2011 date not be met, an effective date of February 1, 2012 would be the best alternative.

Board staff is of the view that in all other respects, Enersource's application is consistent with the EDDVAR Report.

~ All of which is respectfully submitted ~