

**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

December 1, 2011

Kirsten Walli
Board Secretary
Ontario Energy Board
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Chatham-Kent Hydro Inc.
2012 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0163**

In accordance with the Notice of Application and Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Chatham-Kent Hydro Inc. and to all other registered parties to this proceeding.

In addition please remind Chatham-Kent Hydro Inc. that its Reply Submission is due by December 12, 2011.

Yours truly,

Original signed by

Daniel Kim
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Chatham-Kent Hydro Inc.

EB-2011-0163

December 1, 2011

**Board Staff Submission
Chatham-Kent Hydro Inc.
2012 IRM3 Rate Application
EB-2011-0163**

Introduction

Chatham-Kent Hydro Inc. (“Chatham-Kent Hydro”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”), received on September 16, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Chatham-Kent Hydro charges for electricity distribution, to be effective May 1, 2012. 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 Chatham-Kent Hydro.

Board staff makes submissions on the following matters:

- Adjustments to the Revenue-to-Cost Ratios;
- Account 1521 – Special Purpose Charge (“SPC”);
- Disposition of Group 1 Deferral and Variance Accounts as per the *Electricity Distributors’ Deferral and Variance Account Review Report* (the “EDDVAR Report”); and
- Lost Revenue Adjustment Mechanism (“LRAM”) Claim.

ADJUSTMENTS TO THE REVENUE-TO-COST RATIOS

Background

As agreed upon in the new Settlement Agreement, filed on February 14, 2011, in Chatham-Kent Hydro’s 2011 IRM proceeding (EB-2010-0074) and approved by the Board on March 17, 2011, Chatham-Kent Hydro adjusted its revenue-to-cost ratios for 2012.

Submission

Board staff submits that the proposed revenue-to-cost ratio adjustments are in accordance with the Settlement Agreement filed on February 14, 2011 and the Board's Decision in Chatham-Kent Hydro's 2011 IRM proceeding.

ACCOUNT 1521 – SPECIAL PURPOSE CHARGE (“SPC”)

Background

On April 9, 2010, the Board issued a letter and invoice to all licensed electricity distributors outlining the amount of each distributor's SPC assessment and the associated SPC.

On April 23, 2010, the Board issued a letter to all licensed electricity distributors authorizing Account 1521, Special Purpose Charge Assessment Variance Account. Any difference between the amount remitted to the Ministry of Finance for the SPC assessment and the amount recovered from customers was to be recorded in “Sub-account 2010 SPC Assessment Variance” of Account 1521.

The letter also indicated, in accordance with section 8 of the SPC regulation, electricity distributors are required to apply to the Board no later than April 15, 2012 for an order authorizing them to clear any debit or credit balance in the “Sub-account 2010 SPC Variance”. The Board expected that requests for disposition in “Sub-account 2010 SPC Variance” and “Sub-account 2010 SPC Assessment Carrying Charges” would be addressed as part of the proceedings for the 2012 rate year, except in cases where this approach would result in non-compliance with the timeline set out in section 8 of the SPC Regulation. In addition, the letter indicated in accordance with section 9 of the SPC Regulation, recovery of the SPC assessment is to be spread over a one-year period.

In its Manager's Summary, Chatham-Kent Hydro indicated that it collected SPC amounts until April 30, 2011. The total amount collected in 2011 was \$89,175, and this amount was reflected in the 2012 IRM Rate Generator Model filed by Chatham-Kent Hydro.

In response to Board staff interrogatory #3, Chatham-Kent Hydro completed the following table:

SPC Assessment (Principal Balance)	Amount recovered from Customers in 2010	Carrying Charges for 2010	December 31, 2010 Year End Principal Balance	December 31, 2010 Year End Carrying Charges Balance	Amount Recovered from Customers in 2011	Carrying Charges for 2011	Forecasted December 31, 2011 Year End Principal Balance	Forecasted December 31, 2011 Carrying Charges Balance	Total Disposition (Principal & Carrying Charges)	Forecasted Carrying Charges to April 30, 2012	Forecasted April 30, 2012 Year End Principal Balance	Forecasted April 30, 2012 Carrying Charges Balance	Total Disposition (Principal & Carrying Charges)
(A)	(B)	(C)	(D) = (A) + (B)	(E) = (C)	(F)	(G)	(H) = (D) + (F)	(I) = (E) + (G)	(J) = (H) + (I)	(K)	(L) = (H)	(M) = (I) + (K)	(N) = (L) + (M)
\$317,637.00	-\$197,725.93	\$1,423.54	\$119,911.07	\$1,423.54	-\$89,174.98	\$855.36	\$30,736.09	\$2,278.90	\$33,014.99	\$150.60	\$30,736.09	\$2,429.50	\$33,165.59

Submission

Board staff notes that the usual practice by the Board is to dispose of audited deferral and variance account balances. The balances in the table above provided by Chatham-Kent Hydro are not audited. Board staff notes that the residual balance in Account 1521 captures the difference between the assessed amount and the amounts recovered from ratepayers, which arises as a result of the volume used in deriving the assessment unit rate (i.e. \$0.0003725) and the actual volume consumed over the recovery period.

Board staff submits that despite the usual practice, the Board should authorize the disposition of Account 1521 as of December 31, 2010, including carrying charges, plus the amount recovered from customers in 2011, including carrying charges, because the account balance does not require a prudence review, and electricity distributors are required by regulation to apply for disposition of this account by April 30, 2012 in any event. It is Board staff's view that there is no need to await the outcome of the final audited results when these results may be available after April 30, 2012.

DISPOSITION OF GROUP 1 DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT

Background

The EDDVAR Report provides that during the IRM plan term, a distributor's Group 1 audited account balances will be reviewed and disposed if the preset disposition threshold of \$0.001 per kWh (debit or credit) is exceeded.

Chatham-Kent Hydro completed the 2012 IRM Rate Generator Model. The December 31, 2010 actual year end amount for Group 1 accounts with interest projected to April 30, 2012 is a credit balance of \$1,314,487. Credit balances are amounts refundable to customers. This amount results in a total claim of -\$0.00197 per kWh which exceeds the preset disposition threshold. As a result, Chatham-Kent Hydro is seeking disposition of this amount over a one-year period.

In response to Board staff interrogatory #2, Chatham-Kent Hydro confirmed that the balance in Account 1588 is composed solely of Chatham-Kent Hydro's sub-account global adjustment balance. Chatham-Kent Hydro also indicated in their interrogatory response that it has initiated an internal review to determine whether the 2009 and 2010 balances in Account 1588 are in accordance with Article 220 of the Board's Accounting Procedures Handbook ("APH"). In order to allow Chatham-Kent Hydro sufficient time for the completion of the detailed reconciliations and analysis associated with its internal review, and to maintain the current 2012 IRM procedural timeframe, Chatham-Kent Hydro proposed to dispose of its Account 1588 balance as part of its 2013 IRM application.

Submission

Board staff considers that the internal review undertaken by Chatham-Kent Hydro is important to ensure the correctness of the sub-accounts of Account 1588 since the sub-account balances are allocated to different customer groups based on cost causality. Board staff submits that the Board should grant Chatham-Kent Hydro's request to withdraw the disposition of Account 1588 at this time and to defer the disposition as part of its 2013 IRM application.

Board staff has reviewed Chatham-Kent Hydro's Group 1 Deferral and Variance account balances, excluding Account 1588, and notes that the principal amounts as of December 31, 2010 reconcile with the amounts reported as part of the RRR filings. The Group 1 account balances, excluding Account 1588, and including projected carrying charges to April 30, 2012 is a credit of \$725,062 and exceeds the preset disposition threshold. Board staff has therefore no issue with Chatham-Kent Hydro's request to dispose of its 2010 Deferral and Variance Account, excluding Account 1588, balances at this time.

Board staff also submits that Chatham-Kent Hydro's proposal to dispose of its Group 1 account balances, excluding Account 1588, over a one-year period is in accordance with the EDDVAR Report.

LRAM CLAIM

Background

Chatham-Kent Hydro originally sought to recover a total LRAM claim of \$234,951 over a one year period. The lost revenues include the effect of 2009 and 2010 programs as well as persistence for 2009 programs in 2010 and persistence of 2009-2010 programs from January 1, 2011 to April 30, 2012. Chatham-Kent Hydro's original claim used 2009 program results as a best estimate for 2010, 2011 and 2012 program results. Chatham-Kent Hydro subsequently updated its LRAM claim to \$187,449 based on the OPA's 2010 final program results.

The Board's Guidelines for Electricity Distributor Conservation and Demand Management (the "Guidelines") issued on March 28, 2008 outlines the information that is required when filing an application for LRAM. In its Decision on Horizon's application (EB-2009-0192) for LRAM recovery, the Board also noted that distributors should use the most current input assumptions available at the time of the third party review when calculating a LRAM amount.

Submission

2009-2010 Programs and Persistence of 2009-2010 Programs

Chatham-Kent Hydro has requested the recovery of lost revenues associated with 2009 and 2010 programs and persistence of 2009 programs in 2010 and persistence of 2009-2010 programs from January 1, 2011 to April 30, 2012.

Board staff notes that Chatham-Kent Hydro's rates were last rebased in 2010. The intent of the LRAM in the electricity sector is to maintain revenue neutrality for CDM activities implemented by distributors during the IRM term since their rates do not reflect incremental CDM activities beyond the rebasing year. It is Board staff's view that the expectation in the electricity sector has been that LRAM claims pertaining to the test

year (including true-ups to previous rebasing forecasts) would be unnecessary once a distributor rebases and accordingly updates its load forecast. This approach results in having final rates for all elements of the revenue requirement for the test year.

Board staff notes that the CDM Guidelines state the following with respect to LRAM claims:

Lost revenues are only accruable until new rates (based on a new revenue requirement and load forecast) are set by the Board, as the savings would be assumed to be incorporated in the load forecast at that time¹.

In its 2010 cost of service application, Chatham-Kent Hydro had the opportunity to reflect CDM savings on a forecast basis for all programs planned to be deployed up to and including the test year.

Board staff is of the view that Chatham-Kent Hydro should have adjusted its forecast for CDM initiatives during its last rebasing period. Board staff submits that Chatham-Kent Hydro could have done this by the use of reasonable proxies for CDM effects for new programs deployed in the years leading up to and including the test year.

The CDM guidelines suggest that once a new load forecast is approved, it is to be considered final in all respects. The same would hold true in Board staff's view if a CDM adjustment was included in the forecast but was not achieved.

While a true up of all unforecasted CDM activities would be consistent with the revenue neutrality principle of the LRAM concept, it is Board staff's view that the overriding regulatory principle at play here is rate certainty. The rule against retroactive rate-making precludes retroactive adjustments related to the period for which rates were declared final. This is a key regulatory principle which the Board has, with very few exceptions, always upheld. To the extent that actual savings were not reflected in the final approved forecast should be, in Board staff's view, they should be absorbed by the applicant.

¹ Section 5.2: Calculation of LRAM, Guidelines for Electricity Distributor Conservation and Demand Management (EB-2008-0037)

Board staff recognizes that in the past LRAM applications may have been approved for persistence of programs after a new load forecast has been approved in a cost of service application, and the Board may want to consider the issue of consistency in its decision. In cases in which it was clear in the application or settlement agreement that an adjustment for CDM was not being incorporated into the load forecast specifically because of an expectation that an LRAM application would address the issue, and if this approach was accepted by the Board, then Board staff would agree that an LRAM application is appropriate. Chatham-Kent Hydro may want to highlight in its reply submission whether the issue of an LRAM application was addressed in their cost of service application.

Otherwise, Board staff does not support the recovery of the requested persisting lost revenues from 2009 CDM programs in 2010, the lost revenues from 2010 CDM programs, or the lost revenues from 2009 and 2010 CDM programs from January 1, 2011 to April 30, 2012 as these amounts should have been built into Chatham-Kent Hydro's last approved load forecast. Board staff however supports the recovery of lost revenue for 2009 CM programs in 2009 since Chatham-Kent Hydro was under IRM during that period. Board staff requests that Chatham-Kent Hydro provide in its reply submission the lost revenue associated with 2009 CDM programs in 2009.

All of which is respectfully submitted