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BY EMAIL

December 5, 2011

Board Secretary
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: Milton Hydro Distribution Inc.
2012 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0183**

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 Milton Hydro Distribution Inc. and to all other registered parties to this proceeding.

In addition please remind Milton Hydro Distribution Inc. that its Reply Submission is due by December 15, 2011.

Yours truly,

Original Signed By

Georgette Vlahos
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Milton Hydro Distribution Inc.

EB-2011-0183

December 5, 2011

**Board Staff Submission
Milton Hydro Distribution Inc.
2011 IRM3 Rate Application
EB-2011-0183**

Introduction

Milton Hydro Distribution Inc. ("Milton") filed an application (the "Application") with the Ontario Energy Board (the "Board"), received on September 19, 2011, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that Milton charges for electricity distribution, to be effective May 1, 2012. The Application is based on the 2012 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 Milton.

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

Staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Milton. Pursuant to Guideline G-2008-0001, updated on July 8, 2010, Board staff notes that the Board will update the applicable data at the time of this Decision based on any available updated Uniform Transmission Rates.

During the interrogatory phase of this proceeding, Board staff noted that the revenue-to-cost ratios for the General Service Less than 50 kW, Sentinel Lighting and Street Lighting rate classes differed slightly from what was reported in Milton's previous Cost of Service decision (EB-2010-0137). In its response, Milton confirmed that the ratios entered were not correct as an older version of the revenue-to-cost ratios were used by mistake. Milton requested that Board staff make the necessary corrections to the model.

In addition, as directed by the Board in its Decision in Milton's 2011 cost of service proceeding, Milton has adjusted the revenue-to-cost ratio for the Street Lighting and

Sentinel Lighting rate classes to the target minimum range of 70%. Board staff submits that the proposed revenue-to-cost ratio adjustments are in accordance with the Board's findings in its EB-2010-0137 Decision and therefore Board staff has no issues with Milton's proposal.

The Board's *Guidelines for Electricity Distributor Conservation and Demand Management* (the "CDM Guidelines") issued on March 28, 2008 outline the information that is required when filing an application for LRAM or SSM recovery. Milton requested the recovery of \$315,727 in LRAM savings for the years 2005 to 2010 resulting from Third Tranche CDM programs implemented in 2005 and 2006, and OPA CDM programs implemented in 2007 to 2010. As previously noted, Milton's cost of service application was for 2011 rates and therefore it is Board staff's understanding that their load forecast was not updated throughout the period from 2007 to 2010. Board staff submits that Milton has complied with the Board's CDM Guidelines in preparing the LRAM portion of its Application. Board staff has no issues with the LRAM claim as filed.

On April 9, 2010, the Board issued a letter and invoice to all licensed electricity distributors outlining the amount of each distributor's Special Purpose Charge ("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.

Milton provided a reconciliation of Account 1521 – Special Purpose Charge as requested by Board staff during the interrogatory phase. Based on Milton's reconciliation, Board staff supports Milton's request to dispose of the updated balance in this account of (\$17,293).

Board staff makes detailed submissions on the following matters:

- Bill Presentation of the Global Adjustment Sub-Account Rate Rider ("GA Sub-Account"); and
- Review and Disposition of Deferral and Variance Accounts as per the *Electricity Distributors' Deferral and Variance Account Review Report* (the "EDDVAR Report").

BILL PRESENTATION OF THE GA SUB-ACCOUNT RATE RIDER

Background

As part of Milton's 2010 Rate Application (EB-2009-0204), the Board approved Milton's proposal to include the GA Sub-Account rate rider as an adjustment to the monthly Provincial Benefit line on its bills to non-RPP customers. Again, as part of their 2011 Settlement Agreement from their 2011 Cost of Service Rate Application (EB-2010-0137), it was agreed that the GA Sub-Account would be billed as a separate line item with the global adjustment, or 'Provincial Benefit' as it is identified on a customer's bill¹.

During the interrogatory phase of the current proceeding, Board staff asked how the GA Sub-Account rate rider, if approved by the Board, will be represented on the customer's bill for the 2012 rate year. Milton confirmed that it is requesting to continue to include the GA Sub-Account rate rider as part of the Provincial Benefit line of a customer's bill. Milton also stated that its "Customer Information System ("CIS") was programmed two years ago to bill the GA Sub-Account Rate Rider separately from the Global Adjustment and will not accommodate the GA Sub-Account Rate Rider to be added to the "Delivery

¹ EB-2010-0137, Application, Exhibit 9, Page 15

Charge” line of the bill without reprogramming²”. Milton also noted that there is no upgrade to its system scheduled to accommodate the treatment of the GA Sub-Account in a manner that is different from that which has been previously approved by the Board for Milton³.

Submission

In its 2010 Rate Application, Milton referred to the OEB’s Decision and Order in Enersource Hydro Mississauga Inc.’s (“Enersource”) stand-alone application for the disposition 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 other Group 1 Deferral and Variance accounts (EB-2009-0405). In accordance with the EB-2009-0405 Decision, Milton Hydro proposed to identify the Global Adjustment Rate Rider as a separate line item with the Provincial Benefit Adjustment⁴. In Board staff’s view the Decision in EB-2009-0405 provided for the recovery of the GA Sub-Account by way of the electricity component of the bill for non-RPP customers only in cases where the distributor could not readily accommodate a separate rate rider that would apply prospectively to non-RPP customers in the delivery component of the bill. Board staff would also like to note that Enersource has recently confirmed that it has upgraded its billing system and can now facilitate the inclusion of the GA Sub-Account rate rider in the delivery line of the bill such that the circumstances in the EB-2009-0405 Decision are no longer applicable⁵.

Board staff notes that the prevalent practice amongst distributors is to dispose of the GA sub-account by means of a separate rate rider applicable to non-RPP customers that is included in the delivery component of the bill. Decisions on most 2011 IRM Applications directed the GA Sub-Account rate rider to be included in the delivery component of the bill. Milton’s 2011 rate application was a Cost of Service application that resulted in a complete settlement agreement approved by the Board such that Board staff did not have an opportunity to make submissions on this matter in argument.

² EB-2011-0183, Interrogatory Responses #1(c)

³ EB-2011-0183, Interrogatory Responses #19(d)

⁴ EB-2009-0204, Decision and Order, Page 11

⁵ EB-2011-0266, Interrogatory Responses, #5

With respect to the current proceeding, Board staff submits that there is little discretion on the part of the Board. It is clear that Milton's CIS cannot accommodate the GA Sub-Account rate rider in the delivery portion of the bill. Therefore, the current practice should be maintained for 2012 rates. However, Board staff submits that Milton should be directed to upgrade its CIS system in order for the GA Sub-Account rate rider to be presented on the delivery line of a customer's bill in time for the billing of 2013 rates. It is staff's view that symmetry amongst distributors with respect to how customers are billed by utilities should be maintained to the extent possible.

REVIEW AND DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS

For the purpose of 2012 IRM applications, the EDDVAR Report requires a distributor to determine the value of its December 31, 2010 Group 1 Deferral and Variance account balances and determine whether the total balance exceeds the preset disposition threshold of \$0.001 per kWh using the 2010 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 2012 IRM Rate Generator for the disposition of the balances in these accounts. The onus is on the distributor to justify why any account balance should not be cleared if the threshold is exceeded.

Background

Milton completed the Deferral and Variance Account continuity schedule included in the 2012 IRM Rate Generator Model at Tab 9 for its Group 1 Deferral and Variance Accounts. Milton Hydro stated that it did not include the GA Sub-Account along with the other Group 1 accounts in the calculation of the threshold test. Milton prepared a separate continuity schedule specifically related to the GA Sub-Account. Milton's total Group 1 Deferral and Variance Account balances (excluding the GA Sub-Account) amounts to (\$641,075) including interest calculated to April 30, 2012. The total claim for the GA Sub-Account is (\$1,450,049). Consequently, based on the threshold test calculation, the Group 1 Deferral and Variance Account balances (excluding the GA Sub-Account) equates to \$(0.00088) per kWh and as such, Milton Hydro did not request disposition of these Accounts. However, for the GA Sub-Account the threshold test calculation equates to \$(0.00198) which does meet the threshold, and as such Milton

Hydro requested for the disposition of the GA Sub-Account only.

During the interrogatory phase of this proceeding, Board staff noted that the threshold testing methodology proposed by Milton is not consistent with the EDDVAR Report. In the EDDVAR Report, the Board established a preset disposition threshold of \$0.001 per kWh during the IRM plan term for all Group 1 account balances combined. Board staff also noted that if the balance of the GA Sub-Account is combined with the other Group 1 Accounts, the threshold test, as provided in the EDDVAR Report, would be exceeded.

Board staff asked Milton to explain its reasoning for choosing to prepare a separate continuity schedule for the GA Sub-Account and also its reasoning for applying a separate threshold test for the account in question.

With regard to Milton preparing a separate continuity schedule for the GA Sub-Account, Milton responded that it disposes of this account separately to all Non-RPP customers as a single kWh Rate Rider which does not appear on Milton Hydro's Tariff of Rates and Charges⁶. Since previous Board decisions have approved the disposition of the GA Sub-Account separately from other deferral and variance accounts which do appear on the Tariff of Rates and Charges, Milton believed it to be appropriate to separate this particular account for disposition purposes.

With regard to applying a separate threshold test, Milton responded that "despite having separated the Account 1588 – Sub-Account Global Adjustment from the remaining deferral and variance accounts, Milton Hydro determined that it was still appropriate to apply the EDDVAR threshold test to determine if the disposition of the Global Adjustment Sub-Account would meet the requirements of the EDDVAR Report and therefore be approved for disposition⁷."

Submission

Board staff submits that Milton should apply the threshold test to all Group 1 accounts. Staff notes that in this instance the total claim exceeds the threshold. Board staff's calculation generates a result of \$0.003/kWh as noted below:

⁶ EB-2011-0183, Interrogatory Responses, Page 5, #2(a)

⁷ EB-2011-0183, Interrogatory Responses, Page 5, #2(b)

Total Claim for Threshold Test (All Group 1 Accounts)	-\$	2,119,506
Threshold Test ³ (Total Claim per kWh)	-	0.00290

Board staff also notes that clearing all Group 1 accounts, rather than just the GA Sub-Account, is in the public interest because it will mitigate intergenerational inequity. Disposing of all Group 1 accounts will also, in effect, maintain symmetry with respect to the disposition of these accounts.

In its reply submission, Milton may wish to comment on the correctness of the threshold results above calculated by Board staff and also to discuss the disposition period should the Board decide to clear all Group 1 accounts. Staff notes that Milton's original proposal for the disposition period, which related solely to the disposition of the GA Sub-Account, is 1 year.

With regard to its 2012 deferral and variance account balances, should the Board decide to clear all Group 1 accounts, Board staff notes that the principal amounts to be disposed as of December 31, 2010 reconcile with the amounts reported as part of the Reporting and Record-keeping Requirements. Staff also has no concerns with the carrying charges applied.

All of which is respectfully submitted