



EB-2011-0266

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 Enersource
Hydro Mississauga Inc. for an order or orders to dispose of
certain deferral and variance account balances.

By Delegation, before: Adrian Pye

DECISION AND ORDER

Enersource Hydro Mississauga Inc. ("Enersource") filed a distribution rate application with the Ontario Energy Board (the "Board") dated August 17, 2011 under the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Schedule B (the "Act"). The application requested approval to dispose of December 31, 2010 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. Enersource proposed a four-year disposition period commencing November 1, 2011. The Board assigned the application file number EB-2011-0266.

On September 9, 2011, the Board issued a Notice of Application and Procedural Order requiring Enersource to serve a copy of the application on all intervenors of record in its last cost of service application (EB-2007-0706). The Board received no requests for intervention in this proceeding. The Board proceeded by way of a written hearing. On October 11, 2011 Board staff filed submissions. On October 21, 2011 Enersource filed its reply submission.

Background

On October 15, 2010, Enersource filed its 2011 Incentive Rate 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 an overall 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 (“APH”).¹ Also in this letter was a request to withdraw its application for rate riders to refund these balances to ratepayers. Enersource proposed to file a separate application at a later date to dispose of Group 1 Deferral and Variance account balances as at December 31, 2010.

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

The Application

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.

The Group 1 account balances as at December 31, 2010 plus carrying charges to October 31, 2011 proposed for clearance are provided in the table below.

¹ EB-2011-0266 Manager’s Summary, Page 1

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)

The disposition of Group 1 Deferral and Variance account balances, excluding the Account 1588 sub-account global adjustment balance, represents a refund of \$16,747,337 to all customers. The disposition of the Account 1588 sub-account global adjustment balance of \$23,213,948 represents a refund to non-RPP customers.

As part of its application, Enersource provided a reconciliation of regulatory trial balances in the OEB Reporting and Record-keeping Requirements (“RRR”) Filing 2.1.7 for December 31, 2010 to the December 31, 2010 Enersource Hydro Mississauga Audited Financial Statements. In the reconciliation, the RRR Filing 2.1.7 balance for Account 1588 RSVA (including Account 1588 sub-account global adjustment) differed from the audited financial statement amount (i.e. the audited financial statement Account 1588 balance was a higher credit balance than the RRR 2.1.7 Account 1588 balance). Enersource stated that the difference between the audited financial statement balance and the RRR 2.1.7 balance of approximately \$499,000 represented the impact of the completion of a comprehensive review of Group 1 accounts mentioned above. In addition, pursuant to the CICA Handbook Section 1506, the December 31, 2010 audited financial statements are not required to be adjusted for immaterial amounts, and Enersource’s external auditor had concurred that this difference is immaterial².

Enersource proposed to dispose of the balances shown above to the appropriate customer classes via a four-year rate rider for both the Account 1588 sub-account global adjustment and the remaining Group 1 accounts.

² EB-2011-0266, Application, Page 2

For all Group 1 accounts, excluding Account 1588 sub-account global adjustment, Enersource allocated the balances to rate classes based on total kWh for 2010 as reported in Enersource's April 30, 2011 RRR Filing to the Board. The balance of account 1595 (2009) at December 31, 2010 was 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 balances cleared in 2008 rates. This account has been allocated to rate classes in proportion to the recovery share as established when rate riders were implemented³. The Account 1588 sub-account global adjustment balance has been allocated based on 2010 actual non-RPP kWh.⁴

Enersource indicated that if the application is fully approved as originally 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.

Effective and Implementation Date

Enersource initially requested a final rate order by mid-October in order to ensure the implementation of the disposition by November 1, 2011. Enersource confirmed in a response to a Board staff interrogatory that it was not seeking interim rates and as such, requested an effective date of February 1, 2012, should the Board not reach a decision by mid-October. During the submission stage, Board staff noted that the August 17, 2011 filing date did not allow sufficient time to issue a decision by the requested date. Board staff noted that the February 1, 2012 effective date will align with the expiration of current rate riders. Board staff agreed 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 noted in their submission 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 which ends January 31, 2012.

³ EB-2011-0266 Application, Tab 3, Schedule 4, Page 1

⁴ EB-2011-0266 Application, Tab 2, Page 5

The Quantum

With respect to the \$499,000 difference between Enersource's December 31, 2010 audited financial statements and the RRR 2.1.7 filing for December 31, 2010, Board staff asked Enersource to provide a reconciliation identifying the factors which contributed to this difference during the interrogatory phase of this proceeding. Enersource noted that it had originally made certain adjustments in 2010 related to the following activities: Retailer True-Up, Rebates Payable Adjustments, Energy True-Up and Global Adjustment 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).

The \$499,000 difference between Enersource's December 31, 2010 audited financial statements and the RRR 2.1.7 filing for December 31, 2010 was made up of two parts, a credit of \$1.209 million in Account 1588 - Control Account and a debit of \$1.708 million attributable to Account 1588 sub-account global adjustment. The debit of \$1.708 million would only impact non-RPP customers when cleared in rates. The Board's general practice is to clear Account 1588 sub-account global adjustment only to non-RPP customers. This will result in Enersource refunding \$499,000 less to its customers overall, made up of a greater refund in the amount of \$1.209 million to all customers and \$1.708 million less of a refund to non-RPP customers.

To ensure the individual amounts related to the activities noted above were not refunded to or collected from customers, Enersource adjusted the December 31, 2010 regulatory balances in RRR 2.1.7 for these items⁵ and the resulting balance shown in the table above was included in this application for disposition. Board staff reviewed Enersource's response and submitted that it was reasonable.

Consistency with the EDDVAR Report

In its submission, Board staff noted 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 stated that a one year

⁵ EB-2011-0266, Interrogatory Responses, Interrogatory #3

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 noted in its submission that while recognizing the value of the EDDVAR Report in guiding decisions with respect to the disposition of deferral and variance accounts, the Board has in the past, made decisions which deviate from the EDDVAR Report if it deems it is 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 the 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 customers 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, Board staff recommended that a two-year disposition period should be adopted for all Group 1 accounts, and suggested that Enersource may wish to confirm its bill impact calculations with a February 1, 2012 implementation date. In its reply submission, Enersource noted that shortening the refund period to two years would result in a cash outflow equivalent to over 15% and stated this is still a significant burden on Enersource's budgeted cash flow. However, Enersource understands that Board staff is concerned with possible intergenerational inequities.⁶ To address those concerns, Enersource presented a compromise between Board staff's two-year proposal and Enersource's original four-year proposal. In its reply submission, Enersource requested the refund of the Group 1 balances over two different disposition periods: two years for low volume customers (i.e. residential, GS < 50 kW, and small commercial customers, both RPP and non-RPP) and four years for all other customers.

Board staff agreed with Enersource that in all other respects, its application is consistent with the EDDVAR Report. The balances being proposed for disposition, as filed in the current application (EB-2011-0266), reconcile with those reported in Enersource's 2.1.7 RRR Filing for December 31, 2010.

⁶ EB-2011-0266, Interrogatory Responses, Interrogatory #4

Rate Rider Presentation on Customer's Bill

In Enersource's 2010 DVA Application (EB-2009-0405), the Board approved Enersource's request to include the Account 1588 sub-account global adjustment rate rider as part of the Provincial Benefit (commodity) line on the customer's bill. Board staff noted that this was approved partly because of additional time that Enersource required to alter billing capabilities. During the interrogatory phase of this proceeding, Board staff noted that the decisions on most 2011 IRM Applications directed that the Account 1588 sub-account global adjustment rate rider be included in the delivery line of the bill. Board staff questioned Enersource with respect to how the Account 1588 sub-account global adjustment rate rider, if approved by the Board, will be represented on the customer's bill for the current application.

Enersource has confirmed both during the interrogatory phase and in its reply submission that its billing system has been upgraded and can now facilitate the inclusion of the Account 1588 sub-account global adjustment rate rider in the delivery line of the bill.

Board Findings

With regard to Enersource's request for the disposition of its Group 1 account balances as at December 31, 2010, I find that the application is consistent with the Board's guidelines outlined in the EDDVAR Report, excluding the proposed disposition period, and approve the disposition of all balances as filed, including interest up to January 31, 2012.

I find Enersource's explanation for the difference between the 1588 account balances in its RRR filings and those included in its audited financial statements to be reasonable and agree that these prior period adjustments should be excluded from the December 31, 2010 balances to be disposed.

I also agree with Board staff and Enersource that a February 1, 2012 effective and implementation date for the disposition of the Group 1 balances is the best alternative, as this date coincides with the expiration of Enersource's current deferral and variance account rate riders.

Regarding the disposition period, I agree with Board staff that a two-year disposition period is reasonable for all Group 1 accounts. While recognizing the value of the EDDVAR Report in guiding decisions with respect to the disposition of deferral and variance accounts, 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.

I note that in its reply submission Enersource acknowledged that using a four year disposition period may result in intergenerational inequities and followed this by stating that minimizing the impacts on customer bills and on Enersource's cash flows are key objectives⁷. However, in its reply submission in EB-2009-0405 Enersource stated that extending collection out for costs incurred four to six years earlier is not desirable from a fairness-to-ratepayers' point of view and would result in significant inter-generational inequities⁸. From a regulatory policy and fairness perspective the Board generally seeks to reduce intergenerational inequity.

While I recognise that disposing of these balances over of two years may result in some bill volatility I believe it strikes a reasonable balance between reducing intergenerational inequities and mitigating future rate volatility.

This decision was made by an employee of the Board under the authority of section 6(1) of the *OEB Act*. Under section 7 of that Act, this decision and order may be appealed to the Board within 15 days.

THE BOARD ORDERS THAT:

1. Enersource shall file with the Board a draft Rate Order attaching a proposed Tariff of Rates and Charges and other filings reflecting the Board's findings in this Decision within 20 days of the date of issuance of this Decision and Order. The draft Rate Order shall also include customer bill impacts and detailed supporting information showing the calculation of the final rates.
2. Board staff shall file any comments on the draft Rate Order with the Board and forward to Enersource within 10 days of the filing of the draft Rate Order.

⁷ EB-2011-0266, Enersource Reply Submission, Page 4

⁸ EB-2009-0405, Enersource Reply Submission, Page 6

3. Enersource shall file with the Board responses to any comments on its draft Rate Order within 5 days of the date of receipt of submissions.

DATED at Toronto, December 9, 2011

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary