

**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 15, 2011

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: Haldimand County Hydro Inc.  
2012 IRM3 Distribution Rate Application  
Board Staff Submission  
Board File No. EB-2011-0170**

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 Haldimand County Hydro Inc. and to all other registered parties to this proceeding.

In addition please remind Haldimand County Hydro Inc. that its Reply Submission is due by January 9, 2012.

Yours truly,

*Original Signed By*

Christiane Wong  
Information Administrator, Applications & Regulatory Audit

Encl.



# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION**

2012 ELECTRICITY DISTRIBUTION RATES

Haldimand County Hydro Inc.

EB-2011-0170

**December 15, 2011**

**Board Staff Submission  
Haldimand County Hydro Inc.  
2012 IRM3 Rate Application  
EB-2011-0170  
December 15, 2011**

**Introduction**

Haldimand County Hydro Inc. (“Haldimand”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”), received on September 30, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Haldimand charges for electricity distribution, to be effective May 1, 2012. The Application is based on the 2011 3<sup>rd</sup> 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 Haldimand.

Board staff makes submissions on the following matters:

- Disposition of Group 1 Deferral and Variance Account Balances;
- Account 1521 – Special Purpose Charge (“SPC”);
- Fixed/Variable Revenue Split Adjustments; and
- Lost Revenue Adjustment Mechanism (“LRAM”).

**DISPOSITION OF GROUP 1 DEFERRAL AND VARIANCE ACCOUNT BALANCES**

**Background**

The *Report of the Board on Electricity Distributors’ Deferral and Variance Account Review Initiative (the “EDDVAR Report”)* provides that during the IRM plan term, the 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.

Haldimand completed the 2012 IRM Rate Generator. The 2010 actual year end amount for Group 1 accounts with interest projected to April 30, 2012 is a credit of \$1,356,288. Credit balances are amounts payable to customers. This amount results in a total claim per kWh that exceeds the preset disposition threshold of \$0.001 per kWh. Haldimand is seeking disposition of this amount over a one year period.

## **Submission**

Board staff has reviewed Haldimand's Group 1 Deferral and Variance account balances and notes that the principal amounts to be disposed of as of December 31, 2010 reconcile with the amounts reported as part of the RRR. Board staff therefore submits that the amounts should be disposed of on a final basis. Board staff also submits that Haldimand's proposal for a one-year disposition period for its Group 1 account balances is in accordance with the EDDVAR Report.

## **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 response to Board staff interrogatory #2, Haldimand completed the following table which indicates a residual balance of \$22,573 for disposition, comprising principal as of December 31, 2011 and interest to April 30, 2012.

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 Year End Carrying Charges Balance	Forecasted Carrying Charges for 2012 (Jan.1 to Apr.30)	Total for Disposition (Principal & Interest)
\$ 163,046	\$ (94,692)	\$ 557	\$ 68,354	\$ 557	\$ (46,896)	\$ 453	\$ 21,458	\$ 1,010	\$ 105	\$ 22,573

## 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 Haldimand 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 arise 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 that there is no need to await the outcome of final audited results when these results may be available after April 30, 2012.

## Fixed/Variable Revenue Split Adjustment - Residential

### Background

In order to implement the fixed/variable revenue split adjustment for the residential rate class proposed in the EB-2009-0265 Settlement Agreement and approved by the Board, Haldimand proposed to increase the fixed ratio to 42.0% and decrease the variable ratio to 58.0%.

## **Submission**

Board staff submits that the proposed fixed/variable revenue split adjustment are in accordance with the Board's findings in the EB-2009-0265 Decision and Order.

## **LRAM CLAIM**

### **Background**

Haldimand is requesting approval of an LRAM amount of \$249,145, including carrying charges. Haldimand's LRAM claim includes lost revenue from January 1, 2008 to April 30, 2012 for OPA programs delivered in 2008, 2009, and 2010. The LRAM claim also includes lost revenue from January 1, 2010 to April 30, 2010 for programs delivered in 2005, 2006, and 2007.

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**

In response to Board staff interrogatory #3, Haldimand indicated that the load forecast approved in its 2010 cost of service ("CoS") application for May 1, 2010 onwards considered the impacts of CDM programs from 2005, 2006, 2007, 2008, 2009, and 2010. Haldimand also mentioned that when its 2010 load forecast was generated, the OPA's final results for 2008, 2009, and 2010 programs were not available, and therefore the results for these years were estimated. As a result, Haldimand included in its LRAM claim for 2008, 2009, and 2010 programs the difference between the estimated savings included in Haldimand's 2010 load forecast and the final OPA-verified program savings.

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 time<sup>1</sup>.

Board staff is of the view that the adjustments made by Haldimand to its load forecast for CDM initiatives during its last rebasing period were appropriately made and should be final. The CDM guidelines suggest that once a new load forecast is approved, it is to be considered final in all respects and in Board staff's view this holds true even if a CDM adjustment was included in the forecast but was not achieved.

While a true up of all un-forecasted 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 of rate certainty needs to be considered. The rule against retroactive rate-making generally precludes retroactive adjustments related to the period in which rates were declared final, unless specifically determined otherwise by the Board in its decision. 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, absorbed by the applicant. Therefore, Board staff does not support the recovery of lost revenue from January 1, 2010 to April 30, 2012 for OPA programs delivered in 2008, 2009, and 2010, and lost revenue from January 1, 2010 to April 30, 2010 for programs delivered in 2005, 2006, and 2007.

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<sup>1</sup> 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 CoS application, and the Board may want to consider the issue of consistency in its decision.

With respect to the LRAM claim for 2008 and 2009, Board staff notes that Haldimand was under IRM during these years. 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.

Board staff also notes that Haldimand received approval in its 2010 CoS application to recover LRAM claims for programs delivered in 2005 through to 2007 for the period of January 1, 2006 to December 31, 2009.

Board staff supports the recovery of lost revenue for programs delivered in 2008 and 2009 since Haldimand was under IRM during that period. Board staff requests that Haldimand provide in its reply submission the lost revenue associated with 2008 and 2009 CDM programs in 2008 and 2009.

All of which is respectfully submitted