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**BY EMAIL**

January 4, 2012

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: Niagara Peninsula Energy Inc.**
**2012 IRM Distribution Rate Application**
**Board Staff Submission**
**Board File No. EB-2011-0185**

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 Niagara Peninsula Energy Inc. and to all other registered parties to this proceeding.

In addition please remind Niagara Peninsula Energy Inc. that its Reply Submission is due by January 23, 2012.

Yours truly,

*Original Signed By*

Suresh Advani

Encl.

Ontario

# ONTARIO ENERGY BOARD

## STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Niagara Peninsula Energy Inc.

EB-2010-0185

**January 4, 2012**

# Board Staff Submission
# Niagara Peninsula Energy Inc.
# 2012 IRM Rate Application
# EB-2011-0185

## Introduction

Niagara Peninsula Energy Inc. ("NPEI") filed an application (the "Application") with the Ontario Energy Board (the "Board"), received on October 14, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that CNDHI charges for electricity distribution, to be effective May 1, 2012. The Application is based on the 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 NPEI.

In the interrogatory phase, Board Staff identified certain discrepancies in the data entered in the application model by NPEI. In response to Board staff interrogatories which requested either confirmation that these discrepancies were errors or, an explanation supporting the validity of the original data filed with the application, NPEI confirmed that they were errors and provided the corrected data. Board Staff will make the necessary corrections to NPEI's model at the time of the Board's Decision and Order on the application.

Board staff makes submissions on the following matters:

- Review and Disposition of Group 1 Deferral and Variance Account Balances;
- Account 1521 – Special Purpose Charge Disposition (SPC); and
- Adjustments to the Revenue-to-Cost Ratios.

## Review and 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. Debit balances are recoverable from customers whereas credit balances are amounts payable to customers

NPEI requested that the Board review and approve the disposition of its December 31, 2010 balances of Group 1 Deferral and Variance account balances, including interest as of April 30, 2012. The total balance of the Group 1 accounts is a credit of $3,266,677. This amount results in a total claim per kWh of ($0.002670), which exceeds the preset disposition threshold.

NPEI proposed a four-year disposition period for its Group 1 account balances, rather than the default disposition period of one-year. In response to Board staff interrogatory #4, NPEI stated that it proposed a four-year disposition period rather than the default one-year period out of concern for the impact that a one-year disposition would have on its cash flows. They further stated that a one-year disposition period would result in NPEI requiring additional long-term financing, which would increase interest expenses.

*Submission*

<u>The Quantum</u>

Board staff notes that the principal balances to be disposed as of December 31, 2010 reconcile with the amounts reported as part of the Reporting and Record-keeping Requirements ("RRR"). Board staff therefore submits that the balances should be disposed on a final basis.

Disposition Period

Board staff notes that NPEI's application is not consistent with the guidelines outlined in the EDDVAR Report with respect to the default disposition period for Group 1 accounts (i.e. one year). NPEI has requested a four-year disposition period citing as reasons the impact that a one-year disposition would have on cash flows and the need to obviate the requirement for additional long-term financing, which would increase interest expenses.

While recognizing the value of the EDDVAR Report in guiding decisions with respect to the disposition of deferral and variance account balances, 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 Account balances 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 was 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 believes that using a disposition period as long as four years would also contribute intergenerational inequity.  However, 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 inequity and mitigating rate volatility.

Board staff recommends that a two-year disposition period be adopted for all of NPEI's Group 1 account balances.

## Account 1521 – Special Purpose Charge Disposition

*Background*

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 that, 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” account. The Board expected that requests for disposition in the “Sub-account 2010 SPC Variance” and “Sub-account 2010 SPC Assessment Carrying Charges” accounts 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 that, 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, NPEI indicated a total claim amount of ($52,260). In response to Board staff interrogatory #3, NPEI provided a detailed reconciliation which indicates a total for disposition, comprising principal as of December 31, 2011 and interest to April 30, 2012.

*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 NPEI 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 as of April 30, 2012, 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. Board staff's view is that there is no need to await the outcome of final audited results when these results may be available after April 30, 2012.

## Adjustments to the Revenue-to-Cost Ratios

*Background*

In order to implement the 2012 phase of the revenue-to-cost ratio adjustment approved by the Board in the EB-2010-0138 proceeding, NPEI proposed to increase the revenue-to-cost ratios for the Sentinel Lighting and Street Lighting rate classes mid-way to the bottom of the Board's target range of 70% for these rate classes. These additional revenues would reduce the revenue-to-cost ratio for the General Service 50 to 4,999 rate class.

*Submission*

Board staff submits that the proposed revenue-to-cost ratio adjustments are in accordance with the Board's findings in its EB-2010-0138 Decision.

All of which is respectfully submitted.