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January 6, 2012

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Ontario Energy Board
P.O. Box 2319
27th Floor, 2300 Yonge Street
Toronto, ON M4P 1E4

Attention: Kirsten Walli
Board Secretary

**Re: Haldimand County Hydro Inc. (EB-2011-0170)
2012 IRM3 Electricity Distribution Rate Application
Reply Submission**

Dear Ms. Walli:

Haldimand County Hydro Inc. filed an application with the Ontario Energy Board (the "Board") on September 30, 2011 seeking approval for changes to rates that Haldimand County Hydro may charge for electricity distribution to be effective May 1, 2012.

Pursuant to the *Notice of Application and Hearing for an Electricity Distribution Rate Change*, issued October 14, 2011, Board Staff and Vulnerable Energy Consumers Coalition ("VECC") filed written submissions on December 15, 2011 and December 16, 2011 respectively. Haldimand County Hydro is required to file written responses by January 9, 2012.

Two hard copies of Haldimand County Hydro's combined Reply to the Board Staff and VECC Submissions are now enclosed. An electronic copy in PDF format will be submitted through the Board's *Regulatory Electronic Submission System* ("RESS").

Yours truly,
HALDIMAND COUNTY HYDRO INC.

Original signed by

Jacqueline A. Scott
Finance Manager

cc: Intervenors of Record in previous cost of service rate application proceeding EB-2009-0265 (*Email only*)

IN THE MATTER OF the Ontario Energy Board Act, 1998,
being Schedule B to the Energy Competition Act, 1998,
S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Haldimand
County Hydro Inc. to the Ontario Energy Board for an
Order or Orders approving or fixing just and reasonable
rates and other service charges for the distribution of
electricity as of May 1, 2012.

HALDIMAND COUNTY HYDRO INC.

REPLY SUBMISSION

FILED JANUARY 6, 2012

Introduction

Haldimand County Hydro Inc. ("HCHI") filed an application (the "Application") with the Ontario Energy Board (the "Board") on September 30, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for electricity distribution rates effective May 1, 2012. The Application was filed in accordance with the Board's "*Filing Requirements for Transmission and Distribution Applications*".

Vulnerable Energy Consumers Coalition ("VECC") filed a "Notice of Intervention" on October 24, 2011 to HCHI's Application with regards to the determination and allocation of the Lost Revenue Adjustment Mechanism ("LRAM") recovery.

The Board filed a letter dated November 15, 2011 to HCHI regarding the "Disposition of Account 1562" (i.e. Deferred Payments in Lieu of Taxes). Board staff reviewed the evidence filed by HCHI supporting the disposition of this account after which the Board

determined that HCHI's application for disposition will be considered on a stand-alone basis in a separate application to be filed no later than April 1, 2012.

Interrogatories were filed by Board staff on November 16, 2011 and by VECC on November 17, 2011. HCHI filed responses to both Board staff and VECC interrogatories on November 30, 2011.

HCHI received submissions from Board staff on December 15, 2011 and from VECC on December 16, 2011. VECC made submission only on HCHI's LRAM claim.

This document reviews the submissions of Board staff and VECC and provides the reply submission of HCHI on the following matters:

- Review and Disposition of Group 1 Deferral and Variance Account Balances;
- Account 1521 – Special Purpose Charge ("SPC") Disposition;
- Fixed/Variable Revenue Ratio Adjustment – Residential; and
- Lost Revenue Adjustment Mechanism ("LRAM").

HCHI's reply submission addresses, in order, the four matters noted above that Board staff made submission on and with VECC's LRAM submission addressed together with Board staff's LRAM submission.

Finally, HCHI's reply submission addresses the "Disposition of Account 1562" (i.e. Deferred Payments in Lieu of Taxes) and the matter of the Board-directed stand-alone application.

Review and Disposition of Group 1 Deferral and Variance Account Balances

HCHI requested disposition of its December 31, 2010 balances of Group 1 Deferral and Variance accounts, including interest projected to April 30, 2012, for a total credit of \$1,356,288. HCHI is proposing that the total claim be disposed of over a one year rate period effective May 1, 2012.

In its submission, Board staff had no issues with HCHI's request. HCHI has no further submission in this regard.

Account 1521 – Special Purpose Charge (“SPC”) Disposition

HCHI requested disposition of account “1521 – SPC Assessment Variance”, in accordance with the 2012 IRM filing instructions and Section 8 of the SPC Regulation, in the amount of \$22,573 inclusive of interest projected to April 30, 2012. HCHI is proposing the total amount be disposed of over a one year rate period effective May 1, 2012.

This amount of \$22,573 has not been audited. However, as stated in the Board staff submission, it correctly captures the difference between the assessed amount and the amounts recovered from ratepayers. Board staff stated:

“Board staff submits that despite the usual practice, the Board should authorize the disposition of Account 1521 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 final audited results when these results may be available after April 30, 2012.”

In its submission, Board staff had no issues with HCHI's request. HCHI has no further submission in this regard.

Fixed / Variable Revenue Ratio Adjustment – Residential

As proposed in the EB-2009-0265 Settlement Agreement, the Board approved the movement of the fixed / variable revenue ratio for the Residential rate class to occur equally in increments of 5% over each of the subsequent three rate years, resulting in a 47% fixed / 53 % variable ratio in 2013. HCHI's 2011 IRM3 rate application (EB-2010-0086) included the first of the three year incremental fixed / variable revenue ratio

adjustment. For the 2012 rate year (the second of the three year adjustments), the fixed component will increase to 42% from the existing 37% and the variable component will decrease to 58% from the existing 63%.

Board staff submitted that these fixed/variable revenue ratio adjustments are in accordance with the Board's findings in its EB-2009-0265 Decision. HCHI has no further submission in this regard.

Lost Revenue Adjustment Mechanism ("LRAM")

Reply to Board staff Submission:

The Board staff's submission on HCHI's LRAM claim offers its view that LRAM claims pertaining to a test year and beyond (including true-ups to previous rebasing forecasts) would be unnecessary once a distributor rebases and accordingly updates its load forecast.

In the Board's Decision on HCHI's 2010 Cost of Service rate application (EB-2009-0265), the Board had noted that it considered the load forecast of 343.2 GWh as submitted by HCHI to have likely overstated the effects of CDM. Consequently, the Board reduced the impact of CDM and approved a load forecast of 347 GWh. HCHI would find it unfair to have the Board not approve HCHI's LRAM claims pertaining to the test year and beyond, since HCHI made all efforts to include the associated CDM savings into its load forecast.

The objective of LRAM, as noted by Board staff, is to keep the LDC revenue neutral and to ensure that there is not a disincentive to the LDC in delivering energy savings to customers through CDM programs. HCHI agrees with Board staff that once savings are incorporated into the load forecast, there will not be lost revenues associated with those savings. However, the full extent of savings from 2008, 2009 and 2010 programs were not included in HCHI's load forecast since their final results were not available at the time. HCHI believes that it is not reasonable to suggest that lost revenues from these

programs should not be recoverable when final results from these programs were not available at the time of the load forecast and were not fully incorporated into that forecast.

Board staff quotes the following from the CDM Guidelines:

“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.”

HCHI understands that lost revenues associated with historic programs are to be incorporated into the load forecast and not to be claimed again, but HCHI considers it an inappropriate interpretation to suggest that estimated, forecast program results ought not to be revisited in light of actual final results for the purposes of an LRAM claim.

Finally, Board staff submits that:

“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.”

The Board has established the LRAM mechanism precisely as a “retroactive adjustment related to a period in which rates were declared final”. The Board has established this retroactive adjustment for the purpose of keeping LDCs revenue neutral with respect to CDM initiatives that were not part of a load forecast. HCHI should be fully entitled to claiming an LRAM related to the test year and beyond since the Board had reduced the level of CDM in the load forecast as originally requested by HCHI. Disallowing an

LRAM claim for CDM that was removed from the load forecast by the Board would act as a major disincentive to participation in future CDM since revenue neutrality would no longer be guaranteed.

Board staff had requested that HCHI provide as part of its reply submission lost revenue associated with 2008 and 2009 CDM programs in 2008 and 2009 as HCHI was under IRM during that period. HCHI respectfully notes that it was also under IRM for the first four months of 2010. HCHI had submitted this breakdown as part of its original filing¹ and is now providing it again in Table 1 below. Lost revenue including carrying charges during the IRM period of January 1, 2008 to April 30, 2010 inclusive provides for an LRAM claim of \$183,500. However, HCHI still requests that the Board approve the applied-for LRAM claim of \$249,145 as developed and fully supported in the evidence.

Table 1 - LRAM Claim during and after the IRM Period

	IRM	IRM	IRM	2010 Load Forecast	2010 Load Forecast	2010 Load Forecast	<i>Total</i>
	2008	2009	Jan 1 to Apr 30, 2010	May 1 - Dec 31, 2010	2011	Jan 1 - Apr 30, 2012	
Residential	\$46,643	\$48,966	\$25,905	\$37,859	\$6,638	\$395	\$166,405
GS < 50 kW	\$14	\$25,571	\$9,392	-\$5	-\$352	-\$117	\$34,503
GS > 50 kW	\$1,928	\$15,455	\$7,270	\$4,378	\$7,409	\$3,482	\$39,923
<i>LRAM Claim</i>	\$48,585	\$89,992	\$42,568	\$42,232	\$13,694	\$3,760	\$240,831
<i>Carrying Charges</i>	\$1,116	\$1,019	\$220	\$1,369	\$3,409	\$1,180	\$8,313
<i>Total Claim</i>	\$49,701	\$91,012	\$42,787	\$43,600	\$17,104	\$4,940	\$249,145
Cumulative LRAM Claim	\$49,701	\$140,713	\$183,500	\$227,101	\$244,205	\$249,145	

¹ EB-2011-0170, Appendix J, IndEco third party LRAM review, pg 13, Table 5.

Reply to VECC Submission:

VECC's submission on HCHI's LRAM claim focuses on two issues.

1. VECC claims that lost revenues in 2010 and beyond from 2008 to 2010 CDM programs have already been accounted for in the 2010 load forecast.
2. VECC claims that it is premature to request LRAM for 2011 and 2012 since the Measures and Assumptions lists for those years are not yet available.

VECC's claim that HCHI has already more than accounted for CDM through its load forecast is based on CDM energy savings numbers quoted from Reply Submissions to HCHI's 2010 Cost of Service rate application and not on numbers that entered into the final Board-approved load forecast. VECC notes in its submission that:

"In its Decision in EB-2009-0265, the Board noted that a number of load forecasts were suggested by the parties, with the Applicant's models likely overstating the effects of CDM and the others understating them. The Board found that a reasonable approach was to use the average of the Applicant's and Board Staff's models which is approximately 347 GWh."

HCHI confirms that this load forecast of 347 GWh had indeed incorporated a reduction of 6.4 GWh on account of CDM. While VECC has doubts on the validity of this number, HCHI confirms that this number was derived by examining the 2010 load forecast with and without the effects of CDM. HCHI's load forecast does increase by 6.4 GWh when the effects of CDM are removed from the load forecast. HCHI also confirms that an independent third party review by IndEco Strategic Consulting Inc. accurately accounted for the 6.4 GWh reduction when preparing HCHI's current LRAM claim. Evidence supporting IndEco's calculations related to this LRAM reduction is provided in detail in response to Board staff Interrogatory 3 a) to d). HCHI confirms that no LRAM is being claimed on energy savings that were considered in its 2010 load forecast.

The VECC submission suggests that HCHI's LRAM claims for 2011 and 2012 are premature since the Ontario Power Authority ("OPA") has not released Measures and Assumptions ("M&A") lists for those years. VECC states that HCHI's LRAM claims in 2011 and 2012 should be based on inputs from these lists.

The OPA M&A list contains generic data on measures drawn from the literature, previous evaluations and other sources. When calculating its LRAM claim in 2011 and 2012, HCHI did not rely in any way on the OPA M&A lists. Rather, it drew exclusively on the OPA program specific evaluations for 2008, 2009 and 2010 programs, and the results that OPA has identified as 'final'.

VECC submits that:

"VECC accepts for LRAM purposes, the OPA verification of the energy savings for HCHI's 2008 to 2010 OPA CDM programs using the 2006-2009 Final OPA CDM results and 2010 Final OPA CDM Results Summary."

These OPA program specific evaluations for 2008, 2009 and 2010 programs provide verified energy savings that extend into 2011 and 2012. It is for these verified energy savings that HCHI has requested an LRAM claim. Since the claim does not depend on the M&A lists, HCHI sees no reason to revisit the claim should future M&A lists contain values different from those available today.

In submitting that its LRAM claim is appropriate and is fully consistent with previous Board decisions, HCHI requests that the Board approve the LRAM claim, inclusive of carrying charges, in the amount of \$249,145 as developed and fully supported in the evidence.

Account 1562 – Deferred Payments in Lieu of Taxes (“PILs”)

In its letter dated November 15, 2011, and based on Board staff review of the evidence filed by HCHI supporting the disposition of Account 1562 Deferred PILs,

“...the Board has determined that Haldimand’s application is not consistent with the various decisions made in the course of the Combined PILs proceeding. The inconsistencies identified relate to: i) the inclusion of regulatory assets in the determination of the PILs Account 1562 balance; and ii) the selection of income tax rates. Therefore, the Board will not hear the application for disposition of Account 1562 as part of Haldimand’s 2012 IRM application but will consider it on a stand-alone basis in a separate application. The Board expects Haldimand to address the disposition of account 1562 in a stand-alone application to be to be filed no later than April 1, 2012.”

Effectively the letter suggests that “the determination of the final account balance could not be handled expeditiously and in a largely administrative manner”. HCHI intends to file this stand-alone application for the disposition of Account 1562 very shortly, and expects that it will be resubmitted as originally filed. In an effort to alleviate customer confusion and frustration with more than one rate change in a relatively short period of time, the stand-alone application will continue to request to dispose of the debit amount of \$1,008,852 in the Account 1562 Deferred PILs over a one year rate period commencing May 1, 2012. Bill impacts would be minimized by including this recovery from customers commencing at the same time and over the same period as the \$1,356,288 credit amount is being refunded to customers on account of the Group 1 Deferral and Variance Account Balances. This would further facilitate cost savings by not having to publish an additional Notice of Application.

All of which is respectfully submitted this 6th day of January, 2012.