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BY EMAIL

January 9, 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: Cooperative Hydro Embrun Inc.
2012 IRM Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0164**

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 Cooperative Hydro Embrun Inc. and to all other registered parties to this proceeding.

In addition please remind Cooperative Hydro Embrun Inc. that its Reply Submission is due by January 23, 2012.

Yours truly,

Original Signed By

Suresh Advani

Encl.



ONTARIO ENERGY BOARD

BOARD STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Cooperative Hydro Embrun Inc.

EB-2011-0164

January 9, 2012

**Board Staff Submission
Cooperative Hydro Embrun Inc.
2012 IRM Rate Application
EB-2011-0164**

Introduction

Cooperative Hydro Embrun Inc. ("CHEI") 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 CHEI charges for electricity distribution, to be effective May 1, 2012. The Application is based on the 3rd Generation Incentive Regulation Mechanism.

CHEI originally applied for the disposition of Account 1562 (deferred PILS). In a letter dated November 11, 2011, the Board found that based on its review of the evidence filed by CHEI to support the disposition of Account 1562, the application is not consistent with the various decisions made in the course of the Combined PILS proceeding. Accordingly, the Board determined that it would not hear the application for the disposition of Account 1562 as part of this proceeding but would consider it on a stand alone basis in a separate application. The Board noted its expectation that CHEI would address the disposition of Account 1562 in a stand alone application to be filed no later than April 1, 2012.

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 CHEI.

In the interrogatory phase, Board Staff identified certain discrepancies in the data entered in the application model by CHEI. 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, CHEI confirmed that they were errors and provided the corrected data. Board Staff will make the necessary corrections to CHEI'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
- Lost Revenue Adjustment Mechanism (“LRAM”).

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.

CHEI requested that the Board review its December 31, 2010 balances of Group 1 Deferral and Variance account balances, including interest as of April 30, 2012. The total balance of CHEI’s Group 1 accounts is a credit of \$12,392. This amount results in a total claim per kWh of (\$0.000430), which does not exceed the preset disposition threshold. As a result, CHEI did not seek disposition of its Group 1 balances.

Submission

The Quantum

In response to Board staff interrogatory #1, CHEI stated that the Group 1 account balances included in the Rate Generator Model were reported using a cash basis. CHEI also referred to the Accounting Procedures Handbook Frequently Asked Questions, answer to question 13, issued on October 2009 which states that:

“The APH in Article 490 states that the method (billed or accrual) chosen by the distributor shall be consistently applied on an ongoing basis to all RSVAS. Consequently, all quarterly (2.1.1) and annual reporting are required to be reported under the same method.”

In that same interrogatory response, CHEI also requested that the Board allow CHEI to defer the disposition of its Group 1 Deferral and Variance Account balances to the stand-alone proceeding that will deal with the disposition of Account 1562.

Board staff notes that the Board's general practice is to clear Deferral and Variance Account balances that have been audited. This requirement is part of the EDDVAR Report. Board staff submits that CHEI should be using the Group 1 account balances that are based on the accrual method since they reconcile with its 2010 audited financial statements. Board staff requests that CHEI provide in its reply submission the Group 1 RRR 2.1.7 balances (which are based on the accrual method) as of December 31, 2010 including carrying charges as of April 30, 2012.

Board staff also notes that if the RRR 2.1.7 balances were used for the Group 1 accounts, the balance would be a credit of \$91,447, and the total claim per kWh of (\$0.003140) would have exceeded the preset disposition threshold. Board staff submits that the Board should consider ordering the disposition of CHEI's Group 1 account balances based on the accrual method (i.e. using the RRR 2.1.7 balances).

Disposition Period

Board staff recommends that a two-year disposition period be adopted for CHEI's Group 1 account balances based on the accrual method.

Board staff notes that CHEI originally requested a four-year disposition period for the balances in Accounts 1521 and 1562 (together amounting to a credit balance of \$133,294) citing as reasons the need to allow smoothing of rate impacts by avoiding large fluctuations in rates. Board staff also notes that the magnitude of this credit is similar to the Group 1 account balances when expressed on an accrual basis. Therefore, Board staff is assuming that CHEI's reasoning for proposing a four year disposition period would hold.

Board staff notes that its proposal of using a two year disposition period is not consistent with the default disposition period of one year outlined in the EDDVAR Report.

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.

Board staff is of the view that a two year disposition period would strike a balance between reducing intergenerational inequity and mitigating rate volatility.

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, CHEI indicated a total claim amount of \$5,689. In response to Board staff interrogatory #5, CHEI completed the following table which indicates a revised total of \$325 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)
\$11,171	\$5,570	\$35	\$5,601	\$35	\$5,335	\$22	\$266	\$57	\$2	\$325

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 CHEI 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, 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.

With respect to the disposition period for Account 1521, Board staff recommends that the balance be included in the rate rider calculations for the Group 1 account balances and be disposed over two years. Otherwise, a shorter disposition period would necessitate the establishment of an additional rate rider to deal with the disposition of Account 1521. An alternative approach would be to include this insignificant balance in Account 1595 for future disposition.

LRAM Claim (SECTION TO BE REDONE TO REFLECT PREVIOUS BOARD DECISIONS)

Background

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.

CHEI originally sought to recover a total LRAM claim of \$23,748.80 over a one year period. The lost revenues include the effect of CDM programs implemented from 2006-2010 for the years 2006-2010 as CHEI has not made any LRAM applications to date. CHEI requested approval of these savings persisting until April 30, 2012. CHEI's original claim used preliminary 2010 program results as a best estimate in advance of receiving final 2010 results. CHEI subsequently updated its LRAM claim to \$23,482.09 based on the OPA's 2010 final program results.

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

2010 programs and persisting impacts of 2006-2010 programs

CHEI requested the recovery of an LRAM amount that includes the effect of new 2010 programs as well as persistence for 2006-2009 programs in 2010 and persistence of 2006-2010 programs from January 1, 2011 to April 30, 2012.

Board staff notes that CHEI's rates were last rebased in 2010.

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 time¹.

Board staff also notes that in its Decision and Order in the EB-2011-0174 proceeding, the Board disallowed LRAM claims for the rebasing year as well as persistence of prior year programs in and beyond the test year on the basis that these savings should have been incorporated into the applicant's load forecast at the time of rebasing.

In cases in which it was clear in the application or settlement agreement that an adjustment for CDM was not being incorporated into the load forecast specifically because of an expectation that an LRAM application would address the issue, and if this approach was accepted by the Board, then Board staff would agree that an LRAM application is appropriate. CHEI may want to highlight in its reply submission whether the issue of an LRAM application was addressed in its cost of service application.

In the absence of the above information, Board staff therefore does not support the recovery of the requested persisting lost revenues from 2006-2009 CDM programs in 2010, the lost revenues from 2010 CDM programs, or the lost revenues from 2006-2010 CDM programs persisting from January 1, 2011 to April 30, 2012 as these amounts should have been built into CHEI's last approved load forecast.

2006, 2007, 2008 and 2009 programs

Board staff notes that CHEI has not collected lost revenues associated with the 2006, 2007, 2008 or 2009 OPA CDM programs, years where CHEI was under IRM. Board staff supports the approval of the 2006, 2007, 2008 and 2009 lost revenues requested by CHEI as these lost revenues took place during IRM years and have not been recovered by CHEI. Board staff notes that this is consistent with what the Board noted in its decisions on applications from Horizon (EB-2011-0172), Hydro One Brampton (EB-2011-0174), and Whitby Hydro (EB-2011-0206).

¹ Section 5.2: Calculation of LRAM, Guidelines for Electricity Distributor Conservation and Demand Management (EB-2008-0037)

Board staff requests that CHEI provide an updated LRAM amount that only includes lost revenues from 2006-2009 and the associated rate riders.

All of which is respectfully submitted.