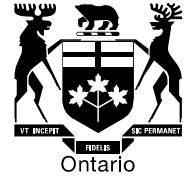


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BY EMAIL

January 13, 2012

Kirsten Walli
Board Secretary
Ontario Energy Board
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Orangeville Hydro Limited
2012 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0190**

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 Orangeville Hydro Limited and to all other registered parties to this proceeding.

In addition please remind Orangeville Hydro Limited that its Reply Submission is due by January 23, 2012.

Yours truly,

Original signed by

Sunny Swatch
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Orangeville Hydro Limited

EB-2011-0190

January 13, 2012

**Board Staff Submission
Orangeville Hydro Limited
2012 IRM3 Rate Application
EB-2011-0190**

Introduction

Orangeville Hydro Limited (“Orangeville Hydro”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on October 14, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Orangeville Hydro charges for electricity distribution, to be effective May 1, 2012. The Application is based on the 2011 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 Orangeville Hydro.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application models by Orangeville Hydro. In response to Board staff interrogatories which requested either a confirmation that these discrepancies were errors or an explanation supporting the validity of the original data filed with the application, Orangeville Hydro confirmed certain errors as described below and provided the necessary corrections to the models.

In response to Board staff interrogatory # 2 and Vulnerable Energy Consumers Coalition (“VECC”) interrogatory #, 1 Orangeville Hydro confirmed that it had originally entered 2011 revenue to cost ratios incorrectly and changed them to the correct ones. Therefore, the adjustments that Orangeville Hydro is now applying for are 49.62% to 59.46% for Street Lighting and 52.22% to 60.80% for Sentinel Lighting. The additional revenue is applied to the residential class. These adjustments were agreed upon in the Settlement Proposal, filed on February 16, 2010, in Orangeville Hydro’s 2010 COS proceeding (EB-2009-0272) and approved by the Board on February 26, 2010.

Board staff submits that Orangeville Hydro’s proposed adjustments to revenue to cost ratios as outlined above should be approved.

Orangeville Hydro completed the Shared Tax Saving filing module and determined a credit amount of \$89,938 of tax savings out of which \$44,969 is to be refunded to customers through 12-month rate riders for each rate class.

Board staff submits that Orangeville Hydro's request to refund \$44,969 to its customers and the resulting calculations of rate riders are in accordance with Chapter 3 of the *Filing Requirements for Transmission and Distribution Applications* (the "Filing Requirements") and should be approved.

Orangeville Hydro's 2010 actual year-end balance for Group 1 Deferral and Variance accounts with interest projected to April 30, 2012 is a credit of \$294,804 to be refunded back to customers. The total for Group 1 accounts is inclusive of the \$255,786 debit balance of 1588 Global Adjustment sub-account. The total Group 1 balance results in a claim of $-\$0.00118$ per kWh, which exceeds the preset disposition threshold. As a result, Orangeville Hydro is eligible to dispose of Group 1 accounts at this time.

Board staff has no issue with Orangeville Hydro's request to dispose of its 2010 Deferral and Variance Account balances over a 1-year period.

The account 1562 PILs evidence filed by Orangeville Hydro for both the former Orangeville and Grand Valley service areas in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered from customers, SIMPIL¹ Excel worksheets and continuity schedules that show the principal and interest amounts in the PILs 1562 account balance.

Orangeville Hydro has calculated a debit balance for recovery from ratepayers of \$299,718 for the former Orangeville service area. Orangeville Hydro has calculated a debit balance for recovery from customers of \$2,456 related to the former Grand Valley service area. Orangeville Hydro's total claim for account 1562 is a debit \$302,174 including carrying charges projected to April 30, 2012.

Board staff submits that Orangeville Hydro has followed the regulatory guidance and the Board's decisions in determining the amounts recorded in account 1562

¹Spreadsheet implementation model for payments-in-lieu of taxes

for both Orangeville and Grand Valley and that those amounts should be disposed and recovered from ratepayers.

Board staff makes detailed submissions on the following matters:

- Disposition of Account 1521 – SPC Variance; and
- Lost Revenue Adjustment Mechanism (“LRAM”).

Disposition of Account 1521 – SPC Variance

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, that 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.

Orangeville Hydro originally requested the disposition of a debit balance of \$32,678 as of April 30, 2012. In the Manager’s Summary, Orangeville Hydro stated that this balance corresponds to the audited 2010 balance in the 1521 SPC Variance Account. In response to Board staff interrogatory # 6, Orangeville

Hydro provided the following table.

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 Carrying Charges Balance	Forecasted Carrying Charges for 2012 (Jan 1 to Apr 30)	Total for Disposition (Principal & Interest)
\$96,075	(\$64,281)	\$260	\$31,794	\$260	(\$42,060)	\$292	(\$10,266)	(\$38)	(\$50)	(\$10,354)

The Total for Disposition of a credit of \$10,354 is the unaudited balance of 1521 as of April 30, 2012 which includes amounts recovered from customers in 2011 and carrying charges forecasted 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 provided by Orangeville Hydro in its interrogatory response 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 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, 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 15, 2012 in any event. It is Board staff's view that there is no need to await the outcome of the final audited results when these results may be available after April 30, 2012.

Board staff submits that the \$10,354 credit balance in account 1521 should be approved for disposition on a final basis rather than Orangeville's initial request to dispose of the audited debit balance of \$32,678. Board staff notes that the \$10,354 credit balance includes the correct calculation of forecasted carrying charges extending to April 30, 2012.

Lost Revenue Adjustment Mechanism (“LRAM”)

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.

Orangeville Hydro originally sought to recover a total LRAM claim of \$38,630.13 over a one-year period. The lost revenues include the effect of CDM programs implemented from 2006-2010. Orangeville Hydro’s original claim used preliminary 2010 program results as a best estimate in advance of receiving final 2010 results. Orangeville Hydro subsequently updated its LRAM claim to \$38,735.65 based on the OPA’s 2010 final program results.

The LRAM claim includes an adjustment to the LRAM claim incorporated into Orangeville Hydro’s 2011 rates due to an error in the calculation of lost revenue that was collected from the GS>50kW class. To correct this error, Orangeville Hydro proposes to refund the amount recovered incorrectly from the GS > 50 kW class (\$21,261.81), and also proposes to recover the corrected amount from the GS < 50 kW class of \$2,693.99.

The Board’s *Guidelines for Electricity Distributor Conservation and Demand Management* (the “Guidelines”) issued on March 28, 2008 outline 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 an LRAM amount.

Submission

2010 programs and persisting impacts of 2006-2010 programs

Orangeville Hydro has 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 2011 and persistence of 2006-2010 programs from January 1, 2011 to December 31, 2011.

Board staff notes that Orangeville Hydro'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 time².

Board staff also notes that in its Decision and Order in Hydro One Brampton's 2012 IRM application (EB-2011-0174), 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. Orangeville Hydro may want to highlight in its reply whether the issue of an LRAM application was addressed in its cost of service application.

In the absence of the above information, Board staff 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 December 31, 2011 as these amounts should have been built into Orangeville Hydro's last approved load forecast. Board staff submits that the above constitutes the entire LRAM claim which Orangeville Hydro should not be

² Section 5.2: Calculation of LRAM, Guidelines for Electricity Distributor Conservation and Demand Management (EB-2008-0037)

permitted to recover in the absence of information outlined in the previous paragraph.

Past LRAM Claim Error

Board staff supports the approach proposed by Orangeville Hydro to correct an error made in calculating the LRAM claim incorporated into its 2011 rates. Orangeville Hydro proposes to refund the amount recovered incorrectly from the GS > than 50 kW class, and also proposes to recover the corrected amount from the GS < than 50 kW class.

All of which is respectfully submitted