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BY EMAIL

January 13, 2012

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

Dear Ms. Walli:

**Re: Centre Wellington Hydro Ltd.
2012 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0160**

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 Centre Wellington Hydro Ltd. and to all other registered parties to this proceeding.

In addition please remind Centre Wellington Hydro Ltd. that its Reply Submission is due by January 27, 2012.

Yours truly,

Original Signed By

Stephen Vetsis
Analyst, Applications & Regulatory Audit

Encl.

Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Centre Wellington Hydro Ltd.

EB-2011-0160

January 13, 2012

Board Staff Submission
Centre Wellington Hydro Ltd.
2012 IRM3 Rate Application
EB-2011-0160

Introduction

Centre Wellington Hydro Ltd. ("Centre Wellington") filed an application (the "Application") with the Ontario Energy Board (the "Board"), received on September 28, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Centre Wellington charges for electricity distribution, to be effective May 1, 2012. The Application is based on the 2011 3rd Generation Incentive Regulation Mechanism.

Included in the Application was a request to dispose of balances in account 1562. On November 22, 2011the Board issued a letter indicating that it would not be hearing evidence regarding account 1562 in this proceeding and requested that Centre Wellington file a stand-alone application no later than April 1, 2012 for the disposition of account 1562.

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 Centre Wellington.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application models by Centre Wellington. 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, Centre Wellington confirmed certain errors as described below and provided the necessary corrections to the models.

Board staff makes submissions on the following matters:

- Disposition of Group 1 Deferral and Variance Account Balances;
- Disposition of Account 1521 – Special Purpose Charge ("SPC") Variance;
- Incremental Capital Module ("ICM"); and
- Lost Revenue Adjustment Mechanism ("LRAM") & Shared Savings Mechanism ("SSM") Claim.

Disposition of Group 1 Deferral and Variance Account Balances

Background

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.

Centre Wellington completed the 2012 IRM Rate Generator Model. The 2010 actual year-end balance for Group 1 accounts with interest projected to April 30, 2012 was a credit of $45,231. Credit balances are to be refunded back to customers. This amount resulted in a total claim of -$0.00029 per kWh, which did not exceed the disposition threshold. As a result, Centre Wellington did not request to dispose of Group 1 accounts at this time.

Submission

Board staff has reviewed Centre Wellington's Group 1 Deferral and Variance account balances and notes that the principal balances as of December 31, 2010 reconcile with the balances reported as part of the Reporting and Record-keeping Requirements. Since the preset disposition threshold has not been exceeded, Board staff has no issue with Centre Wellington's proposal to not dispose of its 2010 Group 1 Deferral and Variance Account balances at this time.

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.

Centre Wellington originally reported a December 31, 2010 balance of $22,258.82 in account 1521. Centre Wellington did not request the disposition of the balance in account 1521 as the sunset date for this charge was April 30, 2011. Centre Wellington stated that the current unaudited balance of account 1521, as of June 30, 2011, 1521 amounted to $2,335.26. In response to Board staff interrogatory # 2, Centre Wellington completed the table below.

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	Carrying Charges for 2012 (Jan. 1 to Apr. 30)	Total for Disposition (Principal & Interest)
$60,232	$38,222.81	$249.63	$22,009.19	$249.63	$20,021.99	$113.01	$1,987.20	$113.01	$7.29	$2,357.13

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 application provided by Centre Wellington 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 up to 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. 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.

Given the magnitude of the amount to be disposed of, and considering that the preset disposition threshold for the Group 1 Account balances was not exceeded, Board staff also submits that the Board should consider directing Centre Wellington to record the SPC balance in variance account 1595 for future disposition.

Incremental Capital Module ("ICM")

The Request

Centre Wellington proposed to recover, through an ICM, the incremental capital costs of $1.2 million associated with the rehabilitation of the Fergus MS-2 transformer station and $164,000 for a new SCADA system.

Centre Wellington proposed to allocate the revenue requirement associated with the incremental capital expenditures eligible for cost recovery (i.e. $128,358) on the basis of distribution revenue. Centre Wellington proposed to recover these amounts by means of variable rate riders that would be in place until such time that Centre Wellington files its next rebasing application (i.e. one year).

Eligibility Criteria

The *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Report") requires that incremental capital expenditures satisfy the eligibility criteria of materiality, need and prudence in order to be considered for recovery prior to rebasing. Applicants must demonstrate that amounts exceed the Board-defined materiality threshold and clearly have a significant influence on the operation of the distributor, must be clearly non-discretionary and the amounts must be clearly outside of the base upon which rates were derived.

(i) Materiality

Centre Wellington calculated a materiality threshold value of $851,349 and calculated the maximum eligible capital to be $1,326,951 ($2,178,300 in total non-discretionary capital budget, including the proposed ICM projects, minus the materiality threshold of $851,349).

(ii) Project Need and Prudence

Centre Wellington retained the services of Costello Associates Inc. to provide an asset condition assessment of six of its distribution stations and to determine the feasibility of a new SCADA system. On page 1 on the 2012 IRM Supporting Information report, provided in Tab 4 of the Application, Costello Associates Inc. states:

> Three of the six municipal substations were found to have serious potential issues related to safety, reliability, environmental protection and age. These three stations range in age from 38 to well over 50 years. As many concerns related to safety, reliability, and environmental protection, we recommend to CWH that work begin immediately to deal with the major concerns stated in the condition assessment report.

In order to begin work immediately, Centre Wellington proposed to recover the costs for two projects identified by Costello Associates Inc., the rehabilitation of the Fergus MS-2 substation and the installation of a new SCADA system, through their 2012 IRM application.

In response to Board staff interrogatory #9.a, Centre Wellington provided the following rationale for proposing to recover funds through an ICM given that they are scheduled for rebasing next year:

> As Costello Associates Inc. supporting information report points out there is a substantial amount of work that needs to be completed on Centre Wellington Hydro’s stations for a multitude of reasons. To ensure these projects are completed in a timely manner Centre Wellington Hydro feels that waiting until rebasing next year, therefore pushing our long term stations capital plan out will expose Centre Wellington Hydro to public safety, and reliability risk. Also contract labour and metal costs have been steadily rising and completing Fergus MS-2 and SCADA projects in 2012 will mitigate total costs.

> Phasing in the replacement and rehabilitation of Distribution Station components during IRM periods as well as during a Cost of Service rate year is viewed as a much more responsible approach than waiting until the next Cost of Service application. This approach smooth's the costs for the customers versus the significant rate shock that would likely require rate mitigation measures in the COS rate year.

The Fergus MS-2 rehabilitation is scheduled to be completed between October and December 2012. The SCADA project is scheduled to be in service on June 30, 2012.

Rehabilitation of the Fergus MS-2 Substation

In the Substation Condition Report, Costello Associates Inc. provided the following assessment of the Fergus MS-2 substation[1]:

> There are two potentially additional serious issues with this station. First, the station is located just above the bank of the Grand River, and there is no oil containment in place around the power transformer. In the times when this station was installed, oil containment was considered an undue expense for a station of this size. In the present day, oil containment is highly recommended to mitigate the financial risk associated with a major cleanup that would be required should a significant amount of oil be released into the river.
>
> The second issue with this station is that there is a padmount transformer installed within the station yard that provides secondary service to the adjacent municipal office building. In the event of a major short circuit at the station, there is a risk of transferring high voltage from the station ground grid into the office building via the secondary conductors. We recommend that this be further investigated as part of any remedial work for this station.
>
> Given the age, condition, and safety issues with this station, it is a candidate for complete replacement. At a minimum, all equipment downstream from the power transformer should be given priority for stations capital projects. CWH should consider the replacement of the

> switchgear with new arc resistant switchgear or outdoor three phase reclosers. An oil containment system should be installed to prevent any oil release into the environment. Finally, pending the outcome of the padmount transformer review, this unit should be relocated outside the station.

Costello Associates Inc. estimated a budget of $1.2 million for the proposed rehabilitation of the Fergus MS-2 substation. In response to Board staff interrogatory #12.b, Centre Wellington stated the following with respect to the criteria used and options considered prior to proposing the Fergus MS-2 project:

> Public/worker safety and reliability were critical factors in the decision to rehabilitate the existing substations. The budget provided to Centre Wellington Hydro was based on typical Ontario LDC design practices for similar stations. A total station replacement with a budgetary cost of $2.2M was considered but through the station condition assessment, it was determined that the lower cost of rehabilitation would meet the necessary improvements needed. The proposed capital program makes use of the existing major components that are in acceptable working condition, to minimize capital expenditures.

Centre Wellington stated that budget amounts were based on current costs of similar projects of scale and that it intends to request competitive bids to complete the station upgrades.

Installation of a SCADA system

In response to Board staff interrogatory #11a, Centre Wellington provided the following rationale for why the installation of a new SCADA system is non-discretionary:

> Centre Wellington believes installing a SCADA is an inherent part of the long term stations capital plan. Centre Wellington views the implementation of SCADA prior to or in conjunction with the rehabilitation of the first station to be completed as beneficial as it will be used immediately to take advantage of the automated protection devices

1 EB-2011-0160 - Application, Tab 4, Appendix 1, Page 4.

> installed including warnings. And going forward will be used operationally to monitor circuit/feed load transfers needed and establish work protection remotely to complete ongoing station projects.
>
> The scope of our long term stations plan is such that starting in 2012 is essential to mitigate risk in the areas of reliability and asset condition management.

In response to Board staff interrogatory #11.c.iii, Centre Wellington provided the following rationale for the proposal to install the SCADA system prior to completing some of the upgrades to other distribution stations identified by Costello Associates Inc. in their report:

> Installation of a new SCADA system replaces the functionality provided by the existing meter reading system which is experiencing reliability issues and provides full SCADA functionality for all rehabilitated stations as they come online over the next few years.

<u>The incremental Revenue Requirement Calculation</u>

(i) The Half Year Rule

Centre Wellington applied the half year rule when calculating the incremental revenue requirement associated with the allowable ICM amount.

(ii) The Capital Structure

Centre Wellington used a 56.67% debt and 43.33% equity deemed capital structure when calculating the revenue requirement associated with the incremental capital expenditures. In response to Board staff interrogatory #4, Centre Wellington explained that this debt/equity thickness was used since it underpinned the capital structure in its 2009 cost of service application. Centre Wellington provided an updated revenue requirement calculation using a 60% debt and 40% equity deemed capital structure.

Centre Wellington used the cost of capital parameters from its last rebasing application.

Submission

Eligibility Criteria

Board staff submits that Center Wellington's proposed incremental capital projects meet the materiality threshold.

Given the safety concerns identified in the Costello Associates Inc. report, Board staff takes no issue with the need for the proposed rehabilitation of the Fergus MS-2 substation. In their responses to interrogatories, Centre Wellington identified that Costello Associates Inc. used projects of similar scale and scope to estimate the budget for the rehabilitation of the Fergus MS-2 substation. Centre Wellington also indicated that a cost/benefit analysis of equipment types was also included in the engineering analysis in the budgeted amount of $1.2M. Additionally, Centre Wellington stated that their intent was to solicit competitive bids for the completion of the required station upgrades. Board staff notes that a distributor is required to account for any differences between forecast and actual capital spending for an ICM in their next cost of service application, as per *Chapter 3 of the Filing Requirements for Transmission and Distribution Applications*.

Board stuff submits that Centre Wellington's proposal for the Fergus MS-2 substation meets the need and prudence eligibility criteria.

The Report states that expenditures recovered through an ICM must be clearly non-discretionary. Based on the reasons provided for the SCADA project by Centre Wellington, Board staff is not satisfied that the need for the SCADA system is clearly non-discretionary for 2012 and feels that such expenditures are better suited for recovery in Centre Wellington's next cost of service application. Board staff is of the view that the majority of the benefits of the proposed SCADA system will only be achieved once the rehabilitation of the remaining substations is completed. Until those projects are completed, the SCADA system will, for the most part, only provide the functionality available through Centre Wellington's current monitoring system. While Centre Wellington has identified reliability concerns with their current monitoring system, Board staff believes that the need for a SCADA system does not outweigh the other environmental and safety concerns identified by Costello Associates Inc. (such as the lack of a primary oil containment system at the Fergus MS-1 substation). As such, Board staff submits that the Centre Wellington's proposed SCADA project should not be included for recovery through the ICM.

The incremental Revenue Requirement Calculation

The Board's general guidance on the application of the half-year rule is provided in the *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* dated September 17, 2008. In this report the Board determined that the half-year rule should not apply so as not to build a deficiency for the subsequent years of the IRM plan term. In a subsequent decision with respect to the application of the half-year rule in the context of an ICM, the Board clarified that the half-year rule would apply in the final year of the IRM plan term. Since Centre Wellington is scheduled to be rebased in 2013, Board staff submits that the half-year year was correctly applied.

As previously indicated, Centre Wellington used the cost of capital parameters underpinning its last cost of service application. Board staff submits that this is consistent with *Chapter 3 of the Filing Requirements for Transmission and Distribution Applications*, dated June 22, 2011 ("the Filing Requirements").

Centre Wellington used a 56.67% debt and 43.33% equity deemed capital structure when calculating the revenue requirement associated with the incremental capital expenditures. In their responses to Board staff interrogatory #4, Centre Wellington provided an updated revenue requirement calculation[2] using the correct 60/40 debt equity thickness. Board staff submits that the updated revenue requirement calculation provided by Centre Wellington in response to Board staff interrogatory #4 is consistent with the Filing Requirements.

Recovery of the Incremental Revenue Requirement

Centre Wellington proposed to allocate the revenue requirement associated with the incremental capital expenditures eligible for cost recovery (i.e. $128,358) on the basis of distribution revenue. Centre Wellington proposed to recover these amounts by means of variable rate riders that would be in place until such time that Centre Wellington files its next rebasing application (i.e. one year).

In response to Board staff interrogatory #10a, Centre Wellington provided the rationale for variable rate riders. Centre Wellington indicated that it believes variable rate riders are more appropriate as they better reflect the use of the distribution system and the associated assets.

Board staff notes that the Board previously approved in the case of Guelph Hydro (EB-2010-0130) and Oakville Hydro (EB-2010-0104) an allocation of the revenue requirement on the basis of distribution revenue and the recovery of the incremental annual revenue requirement amount by means of a variable rate rider. Board staff submits that Centre Wellington's proposed method for recovery of the incremental revenue requirement is reasonable.

Lost Revenue Adjustment Mechanism ("LRAM") & Shared Savings Mechanism ("SSM") Claim

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.

Centre Wellington originally sought to recover a total LRAM claim of $103,372.23 and a total SSM claim of $1,509.52 over a one-year period. The lost revenues included the effect of CDM programs implemented from 2005-2010 (2006-2010 OPA Programs and 2005-2007 Third Tranche Programs). Centre Wellington has requested approval of these savings persisting until December 31, 2011. Centre Wellington's original claim used preliminary 2010 program results as a best estimate in advance of receiving final 2010 results. Centre Wellington subsequently updated its LRAM claim to $106,968.67 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

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2 EB-2011-0160, Interrogatory Responses, Board staff interrogatory #4, page 10.

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

2009 programs and persisting impacts of 2005-2009 programs

Centre Wellington has requested the recovery of an LRAM amount that includes the effect of new 2009 programs as well as persistence for 2005-2008 programs in 2009 and 2010. Centre Wellington has also requested approval for the persistence of 2005-2010 program savings from January 1, 2011 to December 31, 2011

Board staff notes that Centre Wellington's rates were last rebased in 2009.

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[3].

Board staff also notes that in its Decision and Order in the Hydro One Brampton Networks Inc. IRM (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. Centre Wellington may want to highlight in its reply whether the issue of an LRAM application was addressed in their cost of service application.

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

In the absence of the above information, Board staff does not support the recovery of the requested persisting lost revenues from 2005-2008 CDM programs in 2009 and 2010, the lost revenues from 2009 CDM programs, or the lost revenues from 2005-2009 CDM programs persisting from January 1, 2011 to December 31, 2011 as these amounts should have been built into Centre Wellington's last approved load forecast.

2005-2008 and 2010 programs

Board staff notes that Centre Wellington has not collected the lost revenues associated with CDM programs delivered from 2005 to 2008 and 2010, years where Centre Wellington was under IRM. Board staff supports the approval of the 2005, 2006, 2007 2008, and 2010 lost revenues requested by Centre Wellington as these lost revenues took place during IRM years and Centre Wellington did not previously recover these amounts. 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).

Board staff requests that Centre Wellington provide an updated LRAM amount that only includes lost revenues from 2005-2008 in those years and 2010 CDM programs in 2010 and the associated rate riders. Board staff submits that it is premature to consider any lost revenue from 2010 programs persisting from January 1, 2011 to December 31, 2011.

SSM Claim

Board staff submits that Centre Wellington's application for SSM recovery is generally consistent with the Board's Guidelines and the Board's Decision on Horizon's application (EB-2009-0192). Board Staff supports the approval of the requested SSM amount of $1,509.52.

All of which is respectfully submitted