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**BY EMAIL**

January 13, 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: Renfrew Hydro Inc.  
2012 IRM3 Distribution Rate Application  
Board Staff Submission  
Board File No. EB-2011-0195**

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 Renfrew Hydro Inc. and to all other registered parties to this proceeding.

In addition please remind Renfrew Hydro Inc. 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**

Renfrew Hydro Inc.

EB-2011-0195

**January 13, 2012**

**Board Staff Submission  
Renfrew Hydro Inc.  
2012 IRM3 Rate Application  
EB-2011-0195**

**Introduction**

Renfrew Hydro Inc ("Renfrew Hydro") filed an application (the "Application") with the Ontario Energy Board (the "Board") on September 22, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Renfrew Hydro Inc. charges for electricity distribution, to be effective May 1, 2012. The Application is based on the 2011 3<sup>rd</sup> 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 Renfrew Hydro.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application models by Renfrew 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, Renfrew Hydro confirmed certain errors and provided the necessary corrections to the models.

Renfrew Hydro proposed to dispose the 2010 actual year-end balance for Group 1 accounts with interest projected to April 30, 2012 which is a credit of \$370,391 and includes the \$73,405 debit balance of 1588 Global Adjustment sub-account. The credit balance of \$370,391 results in a total claim of -\$0.00391 per kWh, which exceeds the preset disposition threshold. As a result, Renfrew Hydro is eligible to dispose of Group 1 accounts and is proposing to dispose of these accounts over a 4-year period.

Since the preset disposition threshold has been exceeded Board staff has no issue with Renfrew Hydro's request to dispose of its 2010 Group 1 deferral and variance account balances. However, as addressed further in this submission, Board staff does not agree with a 4-year disposition period.

Renfrew Hydro calculated a shared tax savings of \$2,387 to be refunded back to rate

payers through volumetric rate riders. According to *Chapter 3 of the Filing Requirements for Transmission and Distribution Applications* (the “Filing Requirements”) the distributor may apply to record the amount in account 1595 for disposition in a future proceeding in the event that the calculation of one or more rate classes’ rate rider results in negligible amounts, that is for energy-based kWh riders a result of \$0.0000 when rounded to the fourth decimal place and for demand-based kW riders a result of \$0.00 when rounded to the second decimal place.

Renfrew Hydro’s rate riders for all classes with the exception of Unmetered Scattered Load and Street Lighting classes are negligible. In the Manager’s Summary, Renfrew Hydro proposed to record the entire shared tax savings amount of \$2,387 in account 1595 for future disposition.

Board staff agrees with this treatment and notes that it is consistent with past practice of the Board on this matter.

In this application, Renfrew Hydro adjusted the revenue-to-cost ratios for the General Service 50 to 4,999 kW, Street Lighting, and the Unmetered Scattered Load rate classes. The residual revenue was allocated to the Residential class. These adjustments were approved by the Board in Renfrew Hydro’s 2010 Cost of Service (“COS”) proceeding (EB-2009-0146) on November 25, 2010.

Board staff submits that the proposed revenue-to-cost ratio adjustments are in accordance with the Board’s Decision in Renfrew Hydro’s 2010 COS proceeding.

Board staff makes detailed submissions on the following matters:

- Disposition of Account 1521 – SPC Variance;
- Account 1562 – Deferred Payments in Lieu of Taxes (“PILs”);
- Disposition Period of Deferral and Variance Account Balances 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.

Renfrew Hydro's SPC assessment amount was a debit of \$19,974. In the current application, the following was stated by Renfrew Hydro;

"Renfrew continued to collect the SPC Charge through rates from January 1, 2011 until April 30, 2011 when the rate rider was discontinued. The total amount collected was \$17,942. "

Renfrew Hydro is requesting to dispose of the remaining debit balance of \$2,267 in 1521 which includes carrying charges over a 4 year period consistent with Renfrew Hydro's proposed disposition period for the Group 1 accounts.

## **Submission**

Board staff notes that the usual practice by the Board is to dispose of audited deferral and variance account balances. The latest balance of \$2,267 in 1521 provided by Renfrew Hydro in this application is 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.

However, Board staff requests that Renfrew Hydro clarify the following three items in its Reply Submission in order to provide the Board with all information needed to make a decision on the disposition of account 1521.

First, in the Manager's Summary, Renfrew Hydro stated that its 1521 recoveries continued from January 1, 2011 to April 30, 2011; and that the amount billed in 2011 was entered in "Other Adjustments during Q4 2010" column of the 2010 section of the deferral/variance account continuity schedule. Board staff notes that Renfrew Hydro did not enter any amounts under "Board Approved Disposition During 2010" (cell BE38) in the continuity schedule. In its reply submission Renfrew Hydro should distinguish between the amounts recovered in 2010 and those recovered 2011.

Second, Renfrew Hydro should confirm that it did not recover any amounts past April 30, 2011.

Third, Board staff notes that Renfrew Hydro did not enter any amounts for projected interest from January 1, 2012 to April 30, 2012 for account 1521 on the deferral/variance account continuity schedule. Renfrew Hydro should confirm that the total balance of 1521 applied for (\$2,267) includes projected carrying charges to April 30, 2012. If not, Renfrew Hydro should confirm the carrying charges and revise the final balance accordingly in its reply submission.

Other than the clarifications requested above, Board staff has no other concerns with

the balance proposed for disposition. Board staff notes that in the event the Board decides to dispose of account 1521, the disposition should be on a final basis and account 1521 should be closed as of April 30, 2012.

Board staff notes that Renfrew Hydro is requesting a 4-year disposition period for this account. Board staff does not agree with a 4-year disposition. This matter is addressed below as part of Board staff's submission on the disposition period of Group 1 accounts. Board staff submits that aligning the disposition period of this account with the period for other Group 1 accounts is appropriate.

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

#### **Background**

The PILs evidence filed by Renfrew Hydro in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered from customers, SIMPIL<sup>1</sup> Excel worksheets and continuity schedules that show the principal and interest amounts in the PILs 1562 account balance. Renfrew Hydro applied to dispose a credit balance or refund to customers of \$157,752 which included a principal credit balance of \$122,709 and carrying charges up to April 30, 2012 of \$35,043.

#### **Submission**

##### *CDM Incremental OM&A Expenses*

In its 2005 application, Renfrew Hydro provided evidence that indicated it would incur capital costs of \$25,000 related to CDM projects. The 2005 PILs proxy model included a deduction for CDM expenses forecast for the 2005 test year of \$25,000.

Applicants were required to record a corresponding tax or accounting amount on the same row in the 2005 SIMPIL model to determine the appropriate true-up. In the revised Halton Hills model submitted in the Combined Proceeding, the “*CDM 2005 Incremental OM&A expenses per 2005 PILs model*” amount was entered on a line that did not true-up to ratepayers and did not require an offsetting actual amount.

Renfrew Hydro's 2005 revised SIMPIL model TAXCALC sheet row 44 cell C44 "*CDM 2005 Incremental OM&A expenses per 2005 PILs model*" of \$25,000 true up to ratepayers on rows 99 to 132. Renfrew Hydro provided the dollar amount of the actual costs incurred in 2005 of \$11,685. This amount was not recorded on TAXCALC; therefore, there is no symmetrical true-up.

In its response to an interrogatory Renfrew Hydro stated<sup>2</sup>:

"Cell G44 is NIL because there were no CDM costs deducted for tax purposes in 2005. For accounting purposes, the CDM costs incurred were \$11,685 which costs were recorded in subaccounts of Account 1565 and presented in the balance sheet as part of total regulatory assets."

Board staff submits that if Renfrew Hydro incurred CDM expenses in its 2005 net income, the asymmetrical true-up approach adopted by Renfrew Hydro for 2005 CDM expenses is inappropriate and that Renfrew Hydro should select one of the following two options and file a revised 2005 SIMPIL model and PILs continuity schedule:

- 1) Record the 2005 actual CDM expense of \$11,685 in 2005 SIMPIL model TAXCALC sheet row 44 cell G44 on the same row as the CDM proxy amount; or,
- 2) Move the CDM proxy amount of \$25,000 to a line that does not true-up (1 row below in cell C45).

### *Interest Expense*

Renfrew Hydro, in its interrogatory response dated December 22, 2011, page 20 states:

"Renfrew Hydro believes it would be appropriate to treat interest income as an offset to interest expense for the claw-back calculation. Renfrew Hydro further believes it would be appropriate to remove interest on regulatory assets as this is not received until recovered from customers. Furthermore, in the case of Hydro One prudential letters of credit, the fees paid to the bank are included as interest, but should have instead been considered General and Administrative expense. These are fees paid to the bank to keep the letters of credit in place should the need arise to initiate a borrowing under this credit facility. A letter of credit is not a loan, and does not attract interest until drawn upon. Only at this point are the repayment terms, including

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<sup>1</sup> Spreadsheet implementation model for payments-in-lieu of taxes

<sup>2</sup> Responses to Board Staff Interrogatories/December 22, 2011/pg 13



interest, determined. Renfrew Hydro further believes it would be appropriate to remove Hydro One prudential letters of credit fees.”

Board staff submits that to be consistent with the Hydro One Brampton decision on disposition of PILS account balances (EB-2011-0174), the interest on customer deposits and on regulatory assets and liabilities should be excluded from the interest expense used for calculation of the excess interest true-up calculations.

Board staff submits that Renfrew Hydro should file revised SIMPIL models with the recalculated interest expense.

Board staff submits that Renfrew Hydro should file revised PILs continuity schedules after making the changes to the SIMPIL models.

### **Disposition Period of Deferral and Variance Accounts**

#### **Background**

*The Report of the Board on Electricity Distributors’ Deferral and Variance Account Review Initiative* (the “EDDVAR Report”) states that the default disposition period to clear Group 1 account balances by means of a rate rider should be 1 year. However, a distributor could propose a different period to mitigate rate impacts.

Renfrew Hydro is proposing to dispose of Group 1 accounts (excluding the Global Adjustment sub-account), account 1562 and account 1521 over a 4-year period. The total balance is a credit of \$443,796. This total assumes a proposed balance for account 1562 of a credit of \$272,066. Renfrew Hydro states that a 4-year disposition will allow smoothing of rate impacts by avoiding a large fluctuation in rates. However, Renfrew is proposing to dispose of the 1588 Global Adjustment sub-account (debit balance of \$73,405) over a 1-year period.

#### **Submission**

Using the balances filed with Renfrew Hydro’s application, Board staff has carried out a total bill impact analysis assuming one to four year disposition periods for all deferral and variance accounts. It should be noted that the analysis applies to Regulated Price

Plan (“RPP”) customers and therefore does not include the Global Adjustment sub-account. The following table illustrates the results of the analysis.

Total Bill Impact by Disposition Period

|             | 4 Year   |         | 3 Year   |         | 2 Year   |         | 1 Year    |         |
|-------------|----------|---------|----------|---------|----------|---------|-----------|---------|
|             | \$       | %       | \$       | %       | \$       | %       | \$        | %       |
| Residential | (\$4.56) | (4.30%) | (\$5.21) | (4.92%) | (\$6.52) | (6.15%) | (\$10.45) | (9.86%) |
| GS<50       | \$2.99   | 1.14%   | \$1.54   | 0.59%   | (\$1.35) | (0.51%) | (\$10.04) | (3.82%) |

In its reply submission, Renfrew Hydro may wish to confirm the results of the table. From the above table, it can be seen that a 1-year disposition of all deferral and variance accounts would lead to a significant decrease in monthly bills which would be reversed once the deferral and variance account rate riders are terminated in the following year. Changing the disposition period from a 1-year to a 2-year disposition reduces the decrease for residential ratepayers from (9.86%) to (6.15%), and reduces the decrease of GS < 50 kW ratepayers from (3.82%) to (0.51%).

In light of this analysis, Board staff submits that all accounts, including the 1588 Global Adjustment sub-account, account 1562 and account 1521 should have a 2-year disposition period. In Board staffs view the 2-year disposition period will reduce the intergenerational inequity for ratepayers relative to a 4-year disposition period and will mitigate rate volatility relative to the default disposition period of 1 year.

## **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.

Renfrew originally sought to recover a total LRAM claim of \$58,257.82 over a one-year period. The lost revenues include the effect of CDM programs implemented from 2006-2010. Renfrew has not collected LRAM for any of these programs in the past. Renfrew

has requested approval of these savings persisting until April 30, 2012. Renfrew's original claim used preliminary 2010 program results as a best estimate in advance of receiving final 2010 results. Renfrew subsequently updated its LRAM claim to \$58,310.02 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 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 a LRAM amount.

## **Submission**

### *2010 programs and persisting impacts of 2006-2010 programs*

Renfrew Hydro has requested 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 Renfrew 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 time<sup>3</sup>.

Board staff also notes that in its Decision and Order for Hydro One Brampton's 2012 IRM proceeding (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.

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

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. Renfrew 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 April 30, 2012 as these amounts should have been built into Renfrew's last approved load forecast.

#### *2006-2009 programs*

Board staff notes that Renfrew has not collected the lost revenues associated with CDM programs delivered from 2006 to 2009, years where Renfrew was under IRM. Board staff supports the approval of the 2006, 2007, 2008 and 2009 lost revenues requested by Renfrew as these lost revenues took place during IRM years and Renfrew did not have an opportunity to recover these amounts. Board staff notes that this is consistent with what the Board noted in its decisions on 2012 IRM applications from Horizon (EB-2011-0172), Hydro One Brampton (EB-2011-0174), and Whitby Hydro (EB-2011-0206).

Board staff requests that Renfrew provide in its reply submission an updated LRAM amount that only includes lost revenues from 2006-2009 CDM programs in the years 2006, 2007, 2008 and 2009 and the subsequent rate riders.

All of which is respectfully submitted