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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: Oakville Hydro Electricity Distribution Inc.
2012 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0189**

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 Oakville Hydro Electricity Distribution Inc. and to all other registered parties to this proceeding.

In addition please remind Oakville Hydro Electricity Distribution Inc. that its Reply Submission is due by January 23, 2012.

Yours truly,

Original Signed By

Georgette Vlahos
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Oakville Hydro Electricity Distribution Inc.

EB-2011-0189

January 13, 2012

**Board Staff Submission
Oakville Hydro Electricity Distribution
2012 IRM3 Rate Application
EB-2011-0189**

Introduction

Oakville Hydro Electricity Distribution Inc. (“Oakville”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on October 17, 2011, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that Oakville charges for electricity distribution, to be effective May 1, 2012. The Application is based on the 2012 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 Oakville.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application model by Oakville. 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, Oakville confirmed that they were errors and provided the corrected data. Board staff will make the necessary corrections to Oakville’s model at the time of the Board’s Decision on the application.

During the interrogatory phase of this proceeding, Board staff noted that it was unable to reconcile the figures entered for non-loss adjusted metered kWh on tab 4 of the RTSR Workform to those figures reported by Oakville as part of its 2.1.5 RRR filings. Oakville confirmed that it had filed its billed kWh as per its 2.1.3 filings in its 2.1.5 RRR filing. Oakville requested that Board staff allow it to correct its 2.1.5 filings for the 2010 year¹.

Board staff submits that, in amending its 2.1.5 RRR filings, Oakville should take the necessary steps in accordance with the February 17, 2010 letter (*Process for Revising*

¹ EB-2011-0189, Interrogatory Responses, #1(A)

Data Filed under the Board's Reporting and Record Keeping Requirements) sent to all LDC's.

With respect to the application, Oakville re-submitted non-uplifted kWh into tab 4 of the RTSR workform and re-filed its updated workform along with its interrogatory response. Board staff has no concerns with the data supporting the updated RTSRs proposed by Oakville. Pursuant to Guideline G-2008-0001, updated on July 8, 2010, Board staff notes that the Board will update the applicable data at the time of this Decision based on any available updated Uniform Transmission Rates.

Board staff submits that the re-filed revenue-to-cost ratio adjustments are in accordance with the Board's findings in its EB-2009-0271 Decision² and therefore Board staff has no issues with Oakville's proposal for this class or any other class.

Oakville completed the Tax-Savings Workform with the correct rates which reflects the Revenue Requirement Work Form from the Board's cost of service decision in EB-2009-0271. Board staff has no concerns with the Tax-Savings Workform as filed.

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.

Oakville completed the Deferral and Variance Account continuity schedule included in the 2012 IRM Rate Generator Model at Tab 9 for its Group 1 Deferral and Variance Accounts. The total of Oakville's Group 1 Deferral and Variance Account balances amounts to a debit of \$1,466,769 which includes interest calculated to April 30, 2012. Based on the threshold test calculation, the total Group 1 Deferral and Variance Account balances equates to \$0.0009 per kWh which does not exceed the threshold, and as such, Oakville did not request disposition of these Accounts.

Board staff has reviewed Oakville'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*. Also, the preset disposition threshold has not been exceeded. Accordingly, Board staff has no

² EB-2009-0271, Decision and Order, Oakville Hydro Electricity Distribution Inc.

issue with Oakville's request to not dispose of its 2010 Deferral and Variance Account balances at this time.

During the interrogatory phase of this proceeding, Oakville updated its balance in account 1521 to account for more recent actuals and revised its balance to a debit of \$14,639. Based on Oakville's reconciliation, Board staff supports Oakville's request to dispose of the updated debit balance of \$14,639 in this account which is recoverable from customers.

Board staff makes detailed submissions on the following matters:

- Lost Revenue Adjustment Mechanism Claim; and
- Payments in Lieu of Taxes – PILS 1562

LOST REVENUE ADJUSTMENT MECHANISM ("LRAM") 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.

Oakville has requested approval of an LRAM claim of \$233,341 over a one-year period. The lost revenues include the effect of CDM programs implemented from 2009 and 2010.

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

Oakville has requested the recovery of an LRAM amount that includes the effect of new 2010 programs.

Board staff notes that Oakville'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 time³.

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

In the absence of the above information, Board staff does not support the recovery of the requested lost revenues in 2010 as these amounts should have been built into Oakville's last approved load forecast.

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

2009 lost revenues

Board staff does however support the approval of the 2009 lost revenues requested by Oakville as these lost revenues took place during an IRM year, with Oakville not having an opportunity to recover these amounts. Board staff notes that this is consistent with what the Board noted in its 2012 IRM decisions on applications from Horizon (EB-2011-0172), Hydro One Brampton (EB-2011-0174), and Whitby Hydro (EB-2011-0206).

Board staff requests that Oakville provide an updated LRAM amount that only includes lost revenues from 2009 and the subsequent rate riders.

PAYMENTS IN LIEU OF TAXES – PILS 1562

Background

Combined Proceeding (EB-2008-0381)

In 2001, the Board approved a regulatory PILs tax proxy approach for rate applications coupled with a true-up mechanism filed under the *Reporting and Record-keeping Requirements* (“RRR”) to account for changes in tax legislation and rules, and to true-up between certain proxy amounts used to set rates and the actual amounts. The variances resulting from the true-up were tracked in account 1562 for the period 2001 through April 30, 2006.

On December 18, 2009 the Board issued a decision in the Combined PILs Proceeding (EB-2008-0381) and provided its views on how it will review the evidence related to account 1562 deferred PILs.

In that Decision, the Board states that:

“The parties may well differ in their interpretations of the methodology but the Board will decide those questions on the basis of the facts and the underlying documents. The Board will not enter into an enquiry as to what the methodology should have been but rather, will determine, where necessary, what the methodology was and what the appropriate application of the methodology should have been”.⁴

⁴EB-2008-0381 Combined Proceeding, Account 1562 Deferred Payments in Lieu of Taxes (PILs), Decision with Reasons, December 18, 2009, pg. 7.

The PILs evidence filed by Oakville in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered from customers, SIMPIL⁵ Excel worksheets and continuity schedules that show the principal and interest amounts in the PILs 1562 account balance.

Oakville has calculated a credit balance or refund to ratepayers of \$3,253,532 including interest carrying charges.

Submission

PILs related to unbilled consumption at April 30, 2006

Board staff asked Oakville to explain how it calculated the PILs related to unbilled consumption as at April 30, 2006. Oakville responded:

“Oakville Hydro accrued unbilled revenue, including PILs amounts, in the manner described in response to part (B) of this interrogatory. Oakville Hydro did not do a second true-up estimate of the accrual at the end of April 2006.”⁶

Board staff submits that Oakville should provide a calculation of the PILs recoveries related to consumption prior to May 1, 2006 that was billed in the months after April 30, 2006.

Large Corporation Tax Repeal as of January 1, 2006

The Large corporation tax (LCT) was repealed by the federal government in 2006 retroactive to January 1, 2006. Oakville incorporated \$34,234 of LCT into its rates effective April 1, 2005 to April 30, 2006. In July 2007 the Board issued instructions concerning how to account for the repeal of the LCT and how to record the amounts in PILs accounts 1562 and 1592.⁷ Oakville has not disclosed if it recorded the full amount of \$34,234 in account 1592 or split the amount between accounts 1562 and 1592.

⁵Spreadsheet implementation model for payments-in-lieu of taxes

⁶ Responses to Board Staff Interrogatories, page 37.

⁷ APH FAQ July 2007.

In its reply submission, Oakville should explain how and where it accounted for the retroactive repeal of the LCT. Board staff submits that Oakville must record the refund of the LCT to customers in account 1562, and/ or in account 1592.

Other than the cut-off amounts of PILs recovered subsequent to April 30, 2006 and the LCT amounts that were not reflected in the continuity schedule, and any changes in interest carrying charges, Board staff submits that Oakville has followed the regulatory guidance and the Board's decisions in determining the amounts recorded in Account 1562.