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BY EMAIL

January 16, 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: Veridian Connections Inc.
2012 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0199

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 Veridian Connections Inc. and to all other registered parties to this proceeding.

In addition please remind Veridian Connections Inc. that its Reply Submission is due by January 30, 2012.

Yours truly,

Original Signed By

Daniel Kim
Analyst, Applications & Regulatory Audit

Encl.

Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Veridian Connections Inc.

EB-2011-0199

January 16, 2012

Board Staff Submission
Veridian Connections Inc.
2012 IRM3 Rate Application
EB-2011-0199

Introduction

Veridian Connections Inc. ("Veridian") 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 Veridian charges for electricity distribution, to be effective May 1, 2012. Veridian has two rate zones. One is for the Veridian Main service area and the other is for the Gravenhurst service area. The Application pertains to both service areas and is based on the Board's guidelines for 3rd Generation Incentive Regulation Mechanism.

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

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 Veridian.

Board staff makes submissions on the following matters:

- Adjustments to the Revenue-to-Cost Ratios;
- Account 1521 – Special Purpose Charge ("SPC");
- Disposition of Group 1 Deferral and Variance Accounts as per the *Electricity Distributors' Deferral and Variance Account Review Report* (the "EDDVAR Report"); and
- Lost Revenue Adjustment Mechanism ("LRAM") Claim.

ADJUSTMENTS TO THE REVENUE-TO-COST RATIOS

Background

Veridian proposed to adjust some of the revenue-to-cost ratios for the Gravenhurst service area. More specifically, Veridian proposed to increase the revenue-to-cost ratio for the Residential-Suburban Year Round and Sentinel Lighting customer rate classes to a value closer to the lower boundary of the Board approved target ranges. Veridian proposed to apply the offsetting revenues to the General Service Less Than 50kW and General Service Greater Than 50kW customer rate classes noting that the ratio for these classes is within the Board target range but that those rate classes are currently the highest.

Submission

Board staff notes that the Settlement Agreement approved by the Board in Veridian's 2010 cost of service proceeding (EB-2009-0140) did not provide any direction on revenue-to-cost ratio adjustments during the IRM plan term. However, in its initial 2010 rate application, Veridian proposed that further adjustments be made over this period to increase the revenue-to-cost ratios for certain classes to the lower limit of the Board's prescribed ranges. Board staff also notes that Veridian's proposal in this proceeding is consistent with the approval received by Veridian in its 2011 IRM application.

For these reasons, Board staff submits that the changes proposed by Veridian for the Gravenhurst service area are reasonable and should be accepted by the Board.

ACCOUNT 1521 – SPECIAL PURPOSE CHARGE ("SPC")

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, 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.

In its Manager’s Summary, Veridian indicated that due to a system oversight, the recovery period for the SPC was extended for three months past the specified one year period. As a result, over recovery from some customers occurred. Veridian noted that it had identified the specific customers by whom overpayment was made and refunded the amounts to those customers. Veridian also noted that the June 30, 2011 Reporting and Record-keeping Requirements (“RRR”) filing of 2.1.1. SPC balance noted $9,999 due to the over recovery. Veridian stated that after the correction of the over recovery, the unrecovered principal balance in the SPC Account 1521 is $56,013 (which does not include carrying charges).

Consistent with the initial SPC assessment, Veridian used its 2008 wholesale kWhs as the basis for the allocation of Account 1521 between the Main and Gravenhurst service areas.

In response to Board staff interrogatory #10c, Veridian completed 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 *(incl. refunded amt of $185,318)*	Forecasted December 31, 2011 Year End Principal Balance	Forecasted April 30, 2012 Carrying Charges Balance	Total for Disposition (Principal & Carrying Charges)
$977,264	$461,827	$3,324	$515,437	$3,324	$459,424	$56,013	$6,179	$62,192

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 Veridian 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 arises 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, including carrying charges, 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 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.

Board staff also submits that Veridian's proposal to allocate the balance in Account 1521 to the Main and Gravenhurst service areas based on Veridian's 2008 wholesale kWhs is reasonable.

DISPOSITION OF GROUP 1 DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT

Background

The EDDVAR Report provides that during the IRM plan term, a 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.

Veridian completed separate 2012 IRM Rate Generator Models for the Main and Gravenhurst service areas. Therefore two preset disposition thresholds were calculated.

The December 31, 2010 actual year end amount for Group 1 accounts with interest projected to April 30, 2012 is a credit balance of $9,063,286 for the Main service area. Credit balances are amounts refundable to customers. This amount results in a total claim of -$0.00382 per kWh which exceeds the preset disposition threshold.

The December 31, 2010 actual year end amount for Group 1 accounts with interest projected to April 30, 2012 is a credit of $569,013 for the Gravenhurst service area. This amount results in a total claim of -$0.00628 per kWh which exceeds the preset disposition threshold.

With respect to the disposition of the global adjustment sub-account, Veridian noted that it received regulatory approval of a separate rate rider for the disposition of this account that is included in the electricity component of the bill and applies to non-RPP customers only.

Veridian proposes to dispose of the Group 1 account balances for both the Main and Gravenhurst service areas over a two year period.

In response to Board staff interrogatory #13, Veridian noted that as a result of preparing for the RPP Electricity Refunds Claim Audit by the Ministry of Finance, Veridian identified that some adjustments to various Group 1 Deferral and Variance Account balances for the period up to December 31, 2009 were likely to be required. Veridian noted that the audit amounts related to its 2009 balances were identified and recorded within the appropriate accounts to be included within the 2010 year end balances and included in Veridian's 2010 year end RRR filings. Veridian also stated that the adjustments pertaining to 2009 were taken into consideration in the Group 1 account balances applied for disposition within the current IRM application.

Veridian also noted that subsequent to Veridian's 2010 year end RRR filings, adjustments to various Group 1 account balances related to 2010 were identified. However, these adjustments were not reflected in Veridian's 2010 RRR balances and have not been taken into consideration in the Group 1 account balances applied for disposition within the current IRM application. Veridian's stated rationale for not including these adjustments is based on its understanding that the balances applied for disposition must match the amounts reported in the RRR.

Veridian provided the following table for the 2010 adjustments recorded in 2011:

Veridian – Main

Account	Adjustment Amount	Principal Balance as Filed	Principal Balance after Adjustment
1588-RSVA-Power (excluding Global Adjustment)	$6,127,096	($15,130,723)	($9,178,394)
1588-RSVA-Power-Sub Account-Global Adjustment	($1,910,724)	$7,250,548	$5,442,384

Veridian – Gravenhurst

Account	Adjustment Amount	Principal Balance as Filed	Principal Balance after Adjustment
1588-RSVA-Power (excluding Global Adjustment)	$194,969	($550,705)	($362,720)
1588-RSVA-Power-Sub Account-Global Adjustment	($59,801)	$132,856	$74,433

Submission

(i) Group 1 Account Balances

Board staff notes that the amounts reported in the “Principal Balance as Filed” column in the tables above appear to include carrying charges. Board staff is unable to reconcile the amounts in the “Principal Balance after Adjustment” column with the amounts inputted into Veridian’s models and the “Adjustment Amount” column.

Therefore, Board staff requests that Veridian in its reply submission provide the adjustments to Account 1588 (including the global adjustment sub-account), including principal and carrying charges, and also provide an updated calculation of the preset disposition threshold for its Group 1 account balances for both service areas. Board staff also requests that Veridian provide details on the nature of these adjustments.

Board staff is also concerned that Veridian did not attempt to amend its 2010 RRR filings with the adjustments mentioned in the above tables. Board staff notes that in the context of an IRM application, the RRR filing is utilized, among other things, as the best available information for the Board to determine whether or not the preset disposition threshold has been exceeded and therefore triggers disposition of the Group 1 accounts balances.

Board staff notes that the Board issued a letter on February 17, 2010 to electricity distributors concerning revising data filed under RRR. The letter stated in part:

> Compliance with the Board’s reporting and record-keeping requirements (“RRR”) is an important part of a regulated entity’s legal obligations. The Board uses and relies on RRR data for a variety of purposes, and expects that regulated entities will ensure that their data is reported on time and is accurate when reported, such that revisions will only be required in exceptional circumstances.

Board staff further notes that distributors have from January to April 30th each year to check their statistics before submitting the returns which are due by April 30th with the Board. Board staff also notes that after submitting their return, distributors can still make changes to the most recent fiscal year’s filed data by contacting Board staff up to mid-

July. Once the statistical yearbooks are published and issued in August each year, the Board expects that changes to RRR would be necessary where material errors or adjustments have occurred. Board staff notes that Veridian did not notify the Board of the adjustment to the balances filed as part of its 2010 RRR and has therefore not complied with the Board's requirements in this regard. Board staff submits that Veridian should be more diligent in complying with Board requirements going forward.

(ii) Disposition Period

Veridian proposes to dispose of the Group 1 account balances for both service areas over a two year period.

Board staff notes that Veridian's proposal to use 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.

Regardless of whether the Board approves the inclusion of the adjustments to account 1588 referenced above, Board staff agrees with Veridian's proposal of a two year disposition period as this would strike a balance between reducing intergenerational inequity and mitigating rate volatility.

(iii) Bill Presentation of the Global Adjustment Rate Rider

In response to Board staff interrogatory # 12a), Veridian indicated that its current Tariff of Rates and Charges for both the Main and Gravenhurst service areas include a separate rate rider for the disposition of the global adjustment sub-account balance as part of the electricity component of the bill. Veridian explained that these rate riders were established in its 2010 cost of service application (EB-2009-0140) as part of Settlement Proposal which was approved by the Board.

Veridian also submitted that disposition of the global adjustment sub-account balance in a rate rider included in the electricity component of the bill is a practice previously approved by the Board. Veridian submits that this practice should be continued and that it provides consistency of disposition to Veridian's non-RPP customers. Veridian also submitted that this methodology provides consistency across classes of Veridian's non-RPP customers as it provides a single billing determinant for disposition, being kWh, rather than kWh for some classes and kW for others.

In response to Board staff interrogatory #12b), Veridian confirmed that it does have the billing capability to include the global adjustment sub-account rate rider in the delivery component of the bill.

Board staff notes that the prevalent practice among distributors is to dispose of the GA sub-account by means of a separate rate rider applicable to non-RPP customers that is included in the delivery component of the bill. In most cases, the Board approved the inclusion of the global adjustment sub-account rate rider in the electricity component of the bill in cases where the distributor could not readily accommodate a separate rate rider that would apply prospectively to non-RPP customers in the delivery component of the bill.

Board staff submits that consistency across distributors, where possible, should be required. This allows for more meaningful comparison of the rates charged by distributors and consistency on how customers are being billed. Therefore, Board staff is of the view that the Board should consider directing Veridian to include a separate rate rider that would apply prospectively to non-RPP customers in the delivery component of the bill.

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.

Veridian has requested approval of an LRAM claim in the total amount of $1,388,731, which includes $52,065 in carrying charges. Veridian's LRAM claim includes lost revenues from programs delivered in 2007, 2008, 2009 and 2010 as well as persisting effects from 2005 and 2006 programs.

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 2005-2010 programs

Veridian has requested the recovery of an LRAM amount that includes the effect of new 2010 programs as well as persistence for 2005-2009 programs in 2010. In response to Board staff interrogatory #15b, Veridian provided details for the persisting CDM impacts until its rates are determined on a cost of service basis, which is scheduled for May 1, 2014.

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

Board staff notes that the 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[1].

1 Section 5.2: Calculation of LRAM, Guidelines for Electricity Distributor Conservation and Demand

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. Veridian 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 persisting lost revenues from 2005-2009 CDM programs in 2010, the lost revenues from 2010 CDM programs, or the lost revenues from 2005-2010 CDM programs persisting beyond 2010 as these amounts should have been built into Veridian's last approved load forecast. Board staff acknowledges that Veridian only provided the persisting CDM impacts past 2010 at the request of Board staff.

2007-2009 lost revenues

Board staff notes that Veridian did not recover the lost revenues associated with CDM programs delivered from 2007 to 2009 as Veridian was under IRM. Board staff supports the approval of the 2007, 2008 and 2009 lost revenues requested by Veridian as these lost revenues took place during IRM years and Veridian 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 applications from Horizon (EB-2011-0172), Hydro One Brampton (EB-2011-0174), and Whitby Hydro (EB-2011-0206).

Board staff requests that Veridian provide an updated LRAM amount that only includes lost revenues from 2007-2009 and the associated rate riders.

All of which is respectfully submitted

Management (EB-2008-0037)