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January 23, 2012

Kirsten Walli  
Board Secretary  
Ontario Energy Board,  
2300 Yonge St.  
Suite 2700, P.O. Box 2319  
Toronto, Ontario  
M4P 1E4

Dear Ms. Walli:

**Re: OEB File No. EB-2011-0189  
Oakville Hydro Electricity Distribution Inc.  
2012 Distribution Rate Adjustment Application**

Please find accompanying this letter, two copies of Oakville Hydro's reply to the written submissions of Board staff and the Vulnerable Energy Consumers Coalition.

Should there be any questions, please contact me at the number below.

Respectfully Submitted,

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**IN THE MATTER** of the *Ontario Energy Board Act 1998*,  
Schedule B to the *Energy Competition Act*, 1998, S.O. 1998, c.15;

**AND IN THE MATTER OF** an Application by Oakville Hydro  
Electricity Distribution Inc. for an Order or Orders approving just  
and reasonable rates and other service charges for the distribution  
of electricity, effective on May 1, 2012.

**Oakville Hydro Electricity Distribution Inc.**

**Reply Submission**

**Filed: January 23, 2012**

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## **Introduction**

Oakville Hydro Electricity Distribution Inc. (“Oakville Hydro”) filed an application with the Ontario Energy Board (the “Board”) on October 17, 2011 under section 78 of the *Ontario Energy Board Act, 1998* (the “OEB Act”), seeking approval for changes to its rates effective May 1, 2012 (the “Application”). The Application was filed under the Board’s 3<sup>rd</sup> Generation Incentive Regulation Mechanism (“IRM”) in accordance with the Chapter 3 of the Filing Requirements (the “Filing Requirements”) for Transmission and Distribution Applications dated June 22, 2011.

The Board issued a Notice of Application and Hearing (the “Notice”) on October 28, 2011. In the Notice, the Board advised that it intended to proceed with the application by way of a written hearing and requested that intervenors and/or Board staff wishing information and material in addition to the evidence filed with the Board request it by December 5, 2011. The Notice also directed intervenors and Board staff to file written submissions by January 13, 2012. Oakville Hydro was directed to file its response to those submissions by January 23, 2012.

On January 13, 2012 Board staff and VECC filed submissions on the following matters:

- Lost Revenue Adjustment Claim
- Payments in Lieu of Taxes – PILs 1562
- Special Purpose Charge
- Revenue to Cost Ratio Adjustments

Oakville Hydro offers the following submissions in respect of these matters:

### **Lost Revenue Adjustment Claim**

#### **Background**

In its 2010 Cost of Service rate application, Oakville Hydro filed a combined Lost Revenue Adjustment Mechanism (“LRAM”) and Shared Savings Mechanism (“SSM”) claim for lost

revenue resulting from Conservation and Demand Management (“CDM”) programs in 2006, 2007 and 2008. Oakville Hydro is now seeking approval and recovery of historical LRAM amounts related to Ontario Power Authority (“OPA”) CDM programs for the years 2009 and 2010. Oakville Hydro is not seeking recovery for lost revenue in 2009 and 2010 associated with its 2006, 2007 and 2008 CDM programs.

In its Application, Oakville Hydro requested recovery of its LRAM savings resulting from OPA CDM programs implemented in 2009 and 2010. The total amount requested of \$233,341 was based on the forgone volumes applicable to the years 2009 and 2010. Oakville Hydro’s 2009 and 2010 CDM programs will continue to result in lost revenues until its next Cost of Service application. However, in its current Application Oakville Hydro did not request recovery of lost revenues beyond the year 2010, stating that it understood that it would have an opportunity to submit an LRAM claim for lost revenue in later years related to 2009 and 2010 CDM programs in future applications.

In its interrogatories, Board staff questioned Oakville Hydro’s decision not to file for LRAM or SSM recovery beyond 2010 and requested that it provide an updated LRAM amount that included 2009 and 2010 programs that persist until the effective date of Oakville Hydro’s next cost of service rate order.<sup>1</sup> In response to that interrogatory Oakville Hydro estimated that the estimated LRAM amount, including carrying charges, was \$609,734. Oakville Hydro also noted that it received guidance on this matter from Board staff who indicated that this issue would be addressed in the CDM Guidelines for the years 2011 to 2014. On January 5, 2012 the proposed *Guidelines for Electricity Distributor Conservation and Demand Management* were issued. In section 14 of those guidelines it states:

***14. LRAM & SHARED SAVINGS MECHANISM FOR PRE-CDM CODE ACTIVITIES***

*When making an application for either LRAM or SSM in association with CDM programs delivered before 2011, distributors should continue to follow the 2008 CDM Guidelines. All*

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<sup>1</sup> Board staff interrogatory number 12 (b).

*other aspects of the 2008 CDM Guidelines are superseded by this document and the CDM Code.*

Oakville Hydro's understands that the above noted guidelines are still in the "proposal" stage but they appear to indicate that distributors will be permitted to file future applications for the recovery of lost revenues associated with programs delivered before 2011 in future applications.

### **Amount to be recovered**

While Board staff supported Oakville Hydro's claim for lost revenues relating to 2009 CDM programs, it stated that it would not support Oakville Hydro's request for recovery of lost revenues in 2010 unless it was clear in Oakville Hydro's 2010 Cost of Service application or settlement agreement that an adjustment for CDM was not being incorporated into the load forecast because of the expectation that an LRAM application would address the issue. VECC agreed that Oakville Hydro should only be permitted to recover lost revenues that relate to 2009 CDM programs.

Board staff also requested that Oakville Hydro provide an updated LRAM amount that only includes lost revenues from 2009 and the subsequent rate riders. Table 1 breaks out Oakville Hydro's LRAM amount into two segments: lost revenue attributable to 2009 CDM activity in 2009 and 2010; and lost revenue attributable to 2010 CDM activity in 2010.

Table 1

<b>Oakville Hydro Electricity Distribution Inc. Lost Revenue Adjustment Mechanism</b>	
Actual: Lost Revenues in 2009 and 2010 and as a result of 2009 CDM programs	\$ 176,493
Actual: Lost Revenues in 2010 as a result of 2010 CDM programs	\$ 56,848
Total Lost Revenues as a result of 2009 and 2010 Programs	\$ 233,341

## **Load Forecast – Cost of Service Application**

In their interrogatories, Board staff requested that Oakville Hydro identify the CDM savings that were included in its last Board-approved load forecast for CDM programs deployed from 2006 to 2010 inclusive.<sup>2</sup> In its response Oakville Hydro submitted that it did not include CDM savings in its load forecast. Oakville Hydro also submitted that if it had determined that it was appropriate to adjust its load forecast, it would not have deemed it to be appropriate to adjust its load forecast for CDM programs that were planned for 2009 and 2010.

Section 5.3 of the Guidelines for Electricity Distributor Conservation and Demand Management, issued March 28, 2008 (the “2008 Guidelines”) states that, “When applying for LRAM, a distributor should ensure that sufficient time has passed to ensure that the information needed to support the application is available”. Oakville Hydro’s believes that this same treatment should have applied to any adjustments made to its load forecast and that it would not be appropriate to adjust its load forecast for CDM programs planned for 2009 and 2010.

Oakville Hydro’s load forecast was supported by extensive evidence on the public record. As stated in response to Board staff interrogatories in its 2011 IRM application, Oakville Hydro’s load forecast, including the evidence in support of that load forecast, was tested through a total of approximately 75 interrogatories from Board staff and Intervenor during the application review process<sup>3</sup>. In response to Board Staff interrogatories in its 2011 IRM, Oakville Hydro stated that page nine of the Settlement Agreement in its 2010 Cost of Service Application, filed on April 26, 2010 provided that “...the Parties agree that the load forecast resulting from forecast methodology proposed by Energy Probe in Question 6(e) of its clarification questions filed with the Board on April 9, 2010 is appropriate...”. Oakville Hydro submits that the forecast methodology was based upon a multifactor regression model and that the output from that model was not adjusted further for the impact of CDM.

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<sup>2</sup> Board staff interrogatory number 10(d), EB-2011-0189.

<sup>3</sup> Board Staff Interrogatory number 13(a), EB-2010-0104.

The regression model used in the 2010 cost of service application reviewed the years 1998 to 2008 to arrive at a formula for predicting the load forecast of 2010. The prediction formula uses 1998 as much as it does 2006, 2007 and 2008. This means 1998 influences the regression analysis and the resulting prediction formula as much as any other year. As a result, the CDM savings achieved from 2006, 2007 and 2008 programs may have influenced the resulting prediction formula slightly but the potential CDM savings from 2009 and 2010 was not even considered in the prediction formula that supported the 2010 load forecast – they formed no part of that formula because those years were not part of the model

### Rate Riders

In its Application, Oakville Hydro proposed that it recover its LRAM claim over a one year period commencing May 1, 2012. The following tables set out the proposed rate rider for each of the segments presented on page four.

Table 2

Oakville Hydro Electricity Distribution Inc. Actual Lost Revenue Adjustment Mechanism Proposed Rate Riders - 2009 Programs				
Rate Class	Total Lost Revenues	Unit	2010 Billing Units kWh/kW	Proposed Rate Rider May 1, 2012 to April 30, 2013
Residential	\$ 45,018	kWh	557,127,208	\$ 0.00008
GS <50 kW	\$116,061	kWh	173,390,609	\$ 0.00068
GS >50 kW	\$ 13,614	kW	1,670,520	\$ 0.00829
GS > 1000 kW	\$ 1,801	kW	353,675	\$ 0.00518
<b>Total LRAM</b>	<b>\$176,493</b>			

Table 3

Oakville Hydro Electricity Distribution Inc. Actual Lost Revenue Adjustment Mechanism Proposed Rate Riders - 2009 and 2010 Programs				
Rate Class	Total Lost Revenues	Unit	2010 Billing Units kWh/kW	Proposed Rate Rider May 1, 2012 to April 30, 2013
Residential	\$ 73,663	kWh	557,127,208	\$ 0.00013
GS <50 kW	\$141,504	kWh	173,390,609	\$ 0.00083
GS >50 kW	\$ 16,301	kW	1,670,520	\$ 0.00992
GS > 1000 kW	\$ 1,873	kW	353,675	\$ 0.00539
<b>Total LRAM</b>	<b>\$233,341</b>			

## **Input Assumptions**

In its submission, VECC noted that at line 613 of the OPA's CDM results the kWh used to calculate 2009 net annual energy savings for Installed CFLs is an outdated value but that the impact on lost revenue is immaterial. Oakville Hydro agrees with VECC and submits that no adjustment is required as the amount is immaterial.

## **Submission**

The 2008 Guidelines state that LRAM is a mechanism to compensate for distributor-induced lost revenues and it is intended to remove the disincentive associated with distributor-induced lost revenues. In its Decision and Order on Burlington Hydro's 2011 IRM Application (EB-2010-0067), the Board stated that it "...continues to endorse the principle of LRAM, which is that distributors are to be kept whole for revenue that they have forgone as a direct consequence of implementing CDM programs".<sup>4</sup> Oakville Hydro submits that, in order to remove this disincentive, Oakville Hydro should be permitted to recover its LRAM for lost revenues from its 2009 and 2010 programs that persist until its next cost of service application. The current Application relates to the period ending December 31, 2010. For savings that persist beyond 2010, recovery should be permitted at a later date for periods beyond 2010.

In their submissions, Board staff and VECC cited Board decisions from 2012 IRM applications including Horizon Utilities ("Horizon") (EB-2011-0172), Hydro One Brampton (EB-2011-0174) and Whitby Hydro (EB-2011-0206). In its Decision and Order on Horizon's 2012 IRM application, the Board approved Horizon's LRAM claim for revenues lost in 2008, 2009 and 2010 for CDM savings from third tranche programs implemented between 2005 and 2007, as well as OPA programs implemented from 2007 to 2010<sup>5</sup>. Board staff noted in their submission that Horizon's last cost of service application was for 2011 rates, at which time the load forecast was updated<sup>6</sup>. Oakville Hydro notes that Horizon also updated its load forecast in 2008 in its cost of service application (EB-2007-0697) and submits that the Board approved Horizon's

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<sup>4</sup> Decision and Order (EB-2010-0067), Page 9.

<sup>5</sup> Decision and Order, EB-2011-0172, Page 8.

<sup>6</sup> Board Staff Submission, EB-2011-0172, Page 3.



request for recovery of lost revenues associated with CDM programs in its 2008 rebasing year although it had adjusted its load forecast in 2008. In its decisions on Hydro One Brampton's and Whitby Hydro's 2012 IRM applications, the Board did not approve the recovery of lost revenues for the rebasing year.

In its Decision and Order on Collus Power's ("Collus") 2011 IRM application (EB-2010-0076), the Board approved Collus' request for recovery of lost revenue<sup>7</sup>. In its application, Collus stated that LRAM amounts were for programs that impacted revenues from 2006 to 2009<sup>8</sup>. Oakville Hydro submits that this is inconsistent with the decisions cited by Board staff and VECC as Collus had updated its load forecast when it filed its cost of service application (EB-2008-0226) for rates effective May 1, 2009.

Similarly, in its Decision and Order on Bluewater Power's ("Bluewater's") 2011 IRM application (EB-2010-0065), the Board approved Bluewater's request for recovery of lost revenue<sup>9</sup>. The Board approved Bluewater's request even though Bluewater stated in its application that its recovery was related to OPA programs implemented mainly in 2008 and 2009<sup>10</sup>. Bluewater updated its load forecast when it filed its cost of service application (EB-2008-0221) for rates effective May 1, 2009.

Oakville Hydro submits that the Board's recent decisions in 2012 IRM applications, as cited by Board staff and VECC, are inconsistent with those of previous years. The guidance available to Oakville Hydro from the Board at the time that Oakville Hydro prepared its 2010 cost of service application did not support the inclusion of the impact of future CDM programs in its 2010 load forecast. Oakville Hydro submits that if the Board has adjusted its view of CDM-related LRAM recovery in the context of 2012 IRM applications, the change should not be applied retroactively to Oakville Hydro's actions in its 2010 cost of service application. Oakville Hydro submits that the appropriate approach to this Application is the approach taken by the Board in the Collus and Bluewater IRM applications.

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<sup>7</sup> Decision and Order, EB-2010-0076, Page 10.

<sup>8</sup> Collus Power, 2011 IRM Application EB-2011-0065, Page 11.

<sup>9</sup> Decision and Order, EB-2010-0065, Page 15.

<sup>10</sup> Bluewater Power, 2011 IRM Application EB-2010-0065, Page 17.

Oakville Hydro submits that it had not adjusted its load forecast for CDM and that the appropriate amount for recovery is the lost revenue for CDM programs that occurred in 2009 and 2010. Oakville Hydro requests that its proposed LRAM claim of \$233,341 be approved by the Board. Oakville Hydro requests that it be permitted to recover its lost revenues over a period of one year through a variable rate rider rounded to five decimal places.

Consistent with the Board's proposed *Guidelines for Electricity Distributor Conservation and Demand Management* issued January 5, 2012 Oakville Hydro will address the lost revenues in 2011 through 2014 associated with its 2009 and 2010 CDM programs in its future IRM and Cost of Service applications.

## **Payments in Lieu of Taxes – PILS 1562**

### **Background**

In accordance with the Board's decision on the Combined PILs Proceeding (EB-2008-0381), Oakville Hydro included a request for the disposition of the recalculated balance of its PILs variance account in its Application. In completing its Application, Oakville Hydro followed regulatory guidance and the Board's decision in the Combined PILs Proceeding.

### **PILs Related to Unbilled Consumption at April 30, 2006**

In its interrogatories, Board staff requested that Oakville Hydro explain its 2003 year end-accrual for unbilled PILs revenue.<sup>11</sup> In response, Oakville Hydro explained that it accrued estimated unbilled PILs revenue on a monthly basis and that it calculates actual unbilled revenue as part of its year-end procedures. This is possible at year-end as the completion of Oakville Hydro's audit of its financial statements occurs sometime in March allowing Oakville Hydro to obtain actual billed consumption that pertains to the previous fiscal year from its Customer Information System ("CIS"). As Oakville Hydro explained in its response, the monthly accrual is based upon

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<sup>11</sup> Board Staff Interrogatory number 16(b), EB-2011-0189.

a customer's consumption for the previous 365 days and the use of actual billed data after the fact is much more accurate.

In its interrogatories, Board staff also requested that Oakville Hydro explain how it had accounted for PILs related to unbilled revenue accrual or unbilled consumption at April 30, 2006<sup>12</sup>. In response, Oakville Hydro explained that it prepared an estimated accrual of unbilled PILs revenue but it had not calculated the actual unbilled PILs revenue for unbilled consumption as at April 30, 2006 as it does at year-end.

In its submission, Board staff requested that Oakville Hydro provide a calculation of the PILs recoveries that related to consumption prior to May 1, 2006 that was billed in the months after April 30, 2006<sup>13</sup>. In response to Board staff's submission, Oakville Hydro has calculated the unbilled PILs recoveries based upon actual billed data from its CIS as at April 30, 2006. Since there are normally significantly lower volumes in April than on average, the use of actual data, rather than the average of the previous 365, days results in a lower accrual as at April 30, 2006. The recalculated PILs recoveries for April 2006 are reduced from \$334,775 to \$300,787, a reduction in unbilled PILs recoveries of \$33,988. Oakville Hydro submits that the calculation of unbilled PILs revenues based upon actual unbilled consumption is more accurate and that its PILs credit balance should be reduced by \$33,988 plus any changes in carrying charges.

### **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 Hydro incorporated \$34,234 of LCT in its rates effective April 1, 2005. In accordance with the Board's direction issued in July 2007, Oakville Hydro allocated this amount to PILs accounts 1562 and 1592. One-third of the total LCT (\$11,411) was allocated to account 1562 and the remainder was allocated to account 1592. However, as noted by Board staff in its submission, Oakville Hydro omitted this amount from its continuity schedule.

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<sup>12</sup> Board Staff Interrogatory number 16(e), EB-2011-0189.

<sup>13</sup> Board Staff Submission, Page 6, EB-201-0189.

Oakville Hydro agrees that the final approved credit should be increased by \$11,411 plus any changes in carrying charges.

### **Submission**

Oakville Hydro submits that the approved balance of the PILs account be adjusted to reflect the unbilled PILs revenues based upon actual unbilled consumption and the inclusion of the adjustment for the LCT tax. Oakville Hydro requests approval for the disposition of its recalculated PILs balance of \$3,226,789 as detailed below.

Table 4

<b>Recalculated PILs Balance</b>	<b>Amount (\$)</b>
Requested For Disposition	(3,253,532)
Recalculated PILs Revenue as at April 30, 2006	33,988
Large Capital Tax	(11,411)
Adjustment to Interest	4,165
<b>PILs Balance 1562</b>	<b>(3,226,789)</b>

### **Special Purpose Charge**

#### **Background**

In accordance with the Filing Requirements, Oakville Hydro included a request for the disposition of the balance of its Special Purpose Charge (“SPC”) Assessment Variance Account. In response to Board staff interrogatories, Oakville Hydro updated the amount requested for disposition from \$14,727 to \$14,639<sup>14</sup>. In its submission, Board staff supported Oakville Hydro’s updated request for disposition. VECC made no submission on Oakville Hydro’s proposal to disposal to the balance of its SPC Assessment Variance Account.

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<sup>14</sup> Board Staff Interrogatory Number 9(c).

## Submission

Oakville Hydro submits that it be permitted to recover the updated amount of \$14,639 through a fixed monthly charge over a one year period beginning May 1, 2012 in accordance with the following table since Oakville Hydro would not recover the full amount through a variable rate rider because the variable rate rider, rounded to five decimal places would be rounded to zero.

Table 5

SPC Rate Riders					
Rate Classification	Annualized 2010 COS Filing	2010 COS Filing	% of Total Revenue	SPC Variance Account Balance	Rate Rider (\$)
Residential	703,399	1,022,535	54.1%	7,924	0.011
GS < 50 kW	61,306	304,662	16.1%	2,360.82	0.039
GS 50 to 999 kW	9,997	423,493	22.4%	3,281.63	0.328
GS > 1000 kW	204	47,881	2.5%	371.03	1.819
Sentinel Lights	2,720	941	0.0%	7.29	0.003
Street Lighting	201,399	67,512	3.6%	523.15	0.003
USL	8,349	22,131	1.2%	171.49	0.021
TOTAL		1,889,155	100.0%	14,639	

## Revenue to Cost Ratio Adjustments

### Background

In response to interrogatories, Oakville Hydro updated its 2012 IRM revenue to cost ratio worksheet.<sup>15</sup> In their submissions, Board staff and VECC submitted that the updated revenue to cost ratio adjustments proposed by Oakville Hydro were in accordance with the Board's findings in its Decision on Oakville Hydro's 2010 Cost of Service application, EB-2009-0271.

<sup>15</sup> VECC Interrogatory number 1(b), EB-2011-0189

## **Submission**

Oakville Hydro agrees that the updated 2012 IRM revenue to cost ratio worksheet is in accordance with the Boards decision in its 2010 cost of service application and submits that it should be approved as filed.

## **Conclusion**

For the foregoing reasons, Oakville Hydro respectfully requests the following:

- That the Board approve Oakville Hydro's IRM rate adjustments as filed subject to the corrections to the Revenue to Cost Ratio adjustments, and the proposed changes to the recalculated balance of the PILs Variance account; and
- that its request for recovery of the lost revenues relating to CDM programs undertaken in 2009 and 2010 be approved through a variable rate rider rounded to five decimal places with a sunset date of April 30, 2013 be approved;
- that the Board approve the disposition of Oakville Hydro's updated balance of its SPC Assessment Variance Account through a fixed monthly charge over a period of one year; and
- that the Board approve the disposition of Oakville Hydro's recalculated balance of its Payments in Lieu of Taxes Variance Account over a period of one year.

All of which is respectfully submitted this 23rd day of January, 2012.

OAKVILLE HYDRO ELECTRICITY DISTRIBUTION INC.

*Original Signed By*

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Jim Collins

CFO, VP, Corporate and Regulatory Affairs