Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273

Ontario

BY EMAIL

January 27, 2012

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

Dear Ms. Walli:

Re: Ottawa River Power Corp.
2012 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0192

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 Ottawa River Power Corp. and to all other registered parties to this proceeding.

In addition please remind Ottawa River Power Corp. that its Reply Submission is due by February 6, 2012.

Yours truly,

Original Signed By

Stephen Vetsis
Analyst, Applications & Regulatory Audit

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Ottawa River Power Corp.

EB-2011-0192

January 27, 2012

Board Staff Submission
Ottawa River Power Corp.
2012 IRM3 Rate Application
EB-2011-0192

Introduction

Ottawa River Power Corp. ("ORPC") filed an application (the "Application") with the Ontario Energy Board (the "Board") on October 28, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that ORPC charges for electricity distribution, to be effective May 1, 2012. The Application is based on the 2011 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 ORPC.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application models by ORPC. 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, ORPC confirmed certain errors as described below and provided the necessary corrections. Board staff will make the necessary corrections to ORPC's models at the time of the Board's Decision on the Application.

ORPC 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-2009-0165. Board staff has no concerns with the Tax-Savings Workform as filed. ORPC requested disposition of a $3,597 credit to customers to an account specified by the Board. The calculated rate riders for several rate classes resulted in amounts that are immaterial, as defined in *Chapter 3 of the Filing Requirements for Transmission and Distribution Applications*. Board staff submits that ORPC record the $3,597 credit to customers in account 1595 for disposition in a future rate hearing.

ORPC completed the RTSR Workform as part of the Application. ORPC had included IESO Network charges only for the months of January through October. In response to Board staff interrogatory #4, ORPC noted that though it is an embedded distributor, it also pays transmission charges to Brookfield Energy Management Inc. for any generation provided during ORPC's peaks and that the data provided for the IESO Network charges reflect those amounts. Board staff has no concerns with the data supporting the RTSR Workform proposed by ORPC. Pursuant to Guideline G-2008-0001, updated on June 22, 2011, 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 makes detailed submissions on the following matters:

- Revenue to Cost Ratio Adjustments;
- Disposition of Group 1 Deferral and Variance Account Balances;
- Disposition of Account 1521 – SPC Variance; and
- Account 1562 – Deferred Payments in Lieu of Taxes ("PILs").

Revenue to Cost Ratio Adjustments

Background

In the Board's Decision and Order from ORPC's last cost of service rate application (EB-2009-0165), the Board approved a two-year phase in period to increase the revenue-to-cost (R/C) ratios for the Street Lighting rate class from 50% to the bottom of the Board's target range (70%). The costs were to be rebalanced between the Street Lighting and Residential classes. The cost of service application was to establish 2010 rates. ORPC did not file an IRM application for 2011.

As part of the Application, ORPC proposed to complete the phase-in for the R/C ratio adjustment to the Street Lighting class[1]. Board staff noted, in Board staff interrogatory #1, that the 70% R/C ratio entered by ORPC in the Transition Year 1 column of Sheet 6 of the 2012 Revenue/Cost Ratio Model represented the final year of the 2 year phase-in required by the Board and asked ORPC if that number was entered in error. ORPC indicated that the value of 70% was entered in error and asked that Board staff change the value to 60% in the model.

In Board staff interrogatories #2 and 3, Board staff noted that it was unable to reconcile

1 Exhibit 1/Tab 2/Schedule 4, Application, EB-2011-0192, page 2.

the Service Charge (per customer) for the Unmetered Load class and the revenue offsets provided by ORPC in Sheets 3 and 7 of the 2012 Revenue/Cost Ratio Model. ORPC indicated that the values provided were in error and requested Board staff update the model with the corrected values.

Submission

Board staff submits that ORPC adjust the Street Lighting R/C ratio to 60% to complete the first year of the Board's prescribed two-year phase-in and rebalance to the residential class. ORPC would then complete the transition of the Street Lighting R/C ratio to 70% in its next IRM application. Board staff believes the intent of the Board's Decision to phase in the R/C ratio adjustments over two years was to balance the minimization of cross-subsidization between classes with the resulting rate shock of a significant R/C ratio adjustment in one year. As ORPC did not file an IRM application in 2011, the first year of the phase-in was not completed and, as such, should be completed in this application.

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.

ORPC requested the disposition of balances in its Group 1 Deferral and Variance Accounts (DVA) as at December 31, 2010. The total Group 1 DVA claim with interest calculated to April 30, 2012 is a credit balance of $1,126,061. This includes a debit balance of $101,477 in the Global Adjustment sub-account of account 1588. The total Group 1 DVA amount results in a total credit claim of $0.00517/kWh, which exceeds the disposition threshold. ORPC has proposed to recover the Group 1 DVA balances, excluding the Global Adjustment sub-account of account 1588, using variable rate riders with a four year recovery period. ORPC proposed a four year recovery period to "allow smoothing of rate impacts by avoiding a large fluctuation in rates when this rate rider is terminated.[2]" Amounts were allocated based on the billed kWh for each class. ORPC proposed to recover the balance in the Global Adjustment sub-account of account 1588 using variable rate riders with a one year recovery period. Amounts were allocated based on the billed non-RPP kWh for each class.

In response to Board staff interrogatory #7, ORPC provided the resulting total bill impacts if the Group 1 DVA rate riders, excluding the Global Adjustment sub-account, were to be disposed over either 1, 2 or 3 years. The resulting bill impacts, including the bill impacts for the proposed 4 year recovery period, are summarized in the table below.

Class	1 Year		2 Year		3 Year		4 Year	
	Total $	Total %	Total $	Total %	Total $	Total %	Total $	Total %
Residential	- $ 5.27	- 6.2 %	- $ 2.79	- 3.3 %	- $ 1.96	- 2.3 %	- $ 1.55	- 1.8%
GS < 50 kW	- $ 10.24	- 4.5 %	- $ 4.18	- 1.8 %	- $ 2.16	- 0.9 %	- $ 1.15	- 0.5%

Submission

Board staff has reviewed ORPC'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*. Board staff notes that while ORPC states in its Application[3] that is has calculated interest to April 30, 2012, it has not provided any interest calculations for January 1, 2011 through April 30, 2012 in the 2012 IRM3 Rate Generator Model submitted as evidence.

Board staff requests that ORPC confirm in its reply submissions whether or not the $1,126,061 credit balance for Group 1 DVA accounts, excluding the Global Adjustment sub-account, and the $101,477 debit for the Global Adjustment sub-account of account 1588 include carrying charges calculated to April 30, 2012. If not, Board staff suggests that ORPC provide an updated claim including carrying charges calculated to April 30, 2012.

Pending ORPC's clarification regarding the data to which carrying charges were calculated, Board staff submits that the Group 1 DVA balances should be disposed on a final basis.

---

2 Exhibit 1/Tab 3/Schedule 4, Application, EB-2011-0192, page 1.
3 Exhibit 1/Tab 3/Schedule 4, Application, EB-2011-0192, page 1.

Board staff notes that ORPC's application is not consistent with the guidelines outlined in the EDDVAR Report with respect to the default disposition period for Group 1 accounts (i.e. one year).

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. 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.

In the current application, Board staff believes that using a disposition period as long as four years would also contribute to intergenerational inequity. However, Board staff recognizes that some volatility in electricity bills may result from adopting a shorter disposition period. Board staff is of the view that the Board should strike a balance between reducing intergenerational inequity and mitigating rate volatility.

Additionally, Board staff sees no reason for the Global Adjustment sub-account of account 1588 to have a distinct recovery period from the remainder of the Group 1 accounts. Board staff notes in its discussions regarding Group 1 accounts, the EDDVAR report does not single out any particular sub account and, by extension, implies that all Group 1 accounts should be treated similarly. Board staff believes ORPC's concerns regarding minimizing the rate shock to customers should apply to all customers, including the non-RPP customers subject to the Global Adjustment.

For the reasons noted above, Board staff recommends that a two-year disposition period be adopted for all of ORPC's Group 1 DVA balances, including the Global Adjustment sub-account of account 1588.

Disposition of Account 1521 – SPC Variance

Background

ORPC requested the disposition of the April 30, 2011 principal debit balance of $4,050 in account 1521 using a volumetric rate rider with a four year period of disposition. ORPC did not include carrying charges in its request for disposition. Amounts were allocated to customers based on billed kWh for each class and the resulting rate riders were to be included as part of the proposed Deferral and Variance Account rate riders. In response to Board staff interrogatory #6, ORPC completed the following table that included carrying charges computed to April 30, 2012.

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)
$75,508	$44,871	$244	$30,637	$244	$26,587	$1,720	$4,050	$1,964	$238	$6252

Submission

Board staff notes that the usual practice by the Board is to dispose of audited deferral and variance account balances. The balances in account 1521 in the application provided by ORPC are not audited. Board staff notes that the Board has approved the disposition of unaudited balances in account 1521 in both the Horizon (EB-2011-0172) and Hydro One Brampton (EB-2011-0174) 2012 IRM proceedings.

Board staff has no concerns with the $6,252 debit balance in account 1521 provided by ORPC in response to Board staff interrogatory #6. Board staff notes that this balance includes the correct calculation of forecasted carrying charges extending to April 30, 2012. Board staff submits that the $6,252 debit balance in account 1521 is appropriate for recovery. Board staff takes no issue with ORPC's proposal to include the balance as part of the Deferral and Variance Account Rate Rider for recovery nor with ORPC's proposed allocation methodology. Staff notes that the disposition period should be the same as what is decided by the Board for the Group 1 accounts.

Account 1562 – Deferred Payments in Lieu of Taxes ("PILs")

Background

The PILs evidence filed by ORPC in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered from customers, SIMPIL[4] Excel worksheets and continuity schedules that show the principal and interest amounts in the account 1562 deferred PILs balance. In pre-filed evidence ORPC applied to refund to customers a credit balance of $76,635. In response to Board staff interrogatories, ORPC filed revised evidence that now supports a refund to customers of $62,826.

Submission

Income Tax Rates

The SIMPIL worksheets require ORPC to select and input the income tax rates that apply to its actual tax situation. The income tax rate is used to calculate the tax amounts of the various true-up entries specified in the Board's methodology that are included in the balance in account 1562 deferred PILs.

In the 2004 SIMPIL model, ORPC chose to use the maximum income tax rate of 36.12% even though its tax evidence indicates that ORPC was eligible for the federal and Ontario small business deduction. In response to Board staff's interrogatory 8 (h),[5] ORPC provided a tax document and acknowledged that it received the small business deduction for 2004. ORPC also stated the tax rate that should be used for 2004 is 29.7%. However, in its 2004 SIMPIL model filed with the replies to interrogatories, ORPC still used 36.12% as the tax rate rather than 29.7% which in Board staff's view results in an incorrect true-up to ratepayers.

Board staff submits that ORPC should re-file the 2004 SIMPIL model using the income tax rate of 29.7% in TAXCALC cells E122 and E138 and the tax rate of 28.58% (29.7% - surtax of 1.12%) in cells E130 and E175 and update its account 1562 deferred PILs continuity schedule.

---

[4] Spreadsheet implementation model for payments-in-lieu of taxes
5 Exh.4/Tab1/Sch.1/pg19/ January 13, 2012.

Excess Interest True-up Calculations

When the actual interest expense, as reflected in the financial statements and tax returns, exceeds the maximum deemed interest amount approved by the Board, the excess amount is subject to a claw-back penalty and is shown in sheet TAXCALC as an extra deduction in the true-up calculations.

ORPC replied to Board staff's interrogatories and provided two tables that disclose interest expense.[6] Interest expense disclosed in its financial statements and deducted in its tax returns is higher in each year for 2002 through 2005 than ORPC used in the SIMPIL model interest true-up calculations for the same years. ORPC deducted interest income to reduce the interest expense, and thus avoided the interest true-up in the SIMPIL models.

The Board decided in Hydro One Brampton's 2011 cost of service application (EB-2011-0174) that Hydro One Brampton's interest expense should not be reduced by interest income.[7]

Board staff submits that ORPC should use the higher interest expense disclosed in the table on page 22 of its replies to Board staff interrogatories in the SIMPIL models for 2002 through 2005 for the true-up calculations and update its account 1562 deferred PILs continuity schedule.

Use of Board-approved Rates

In the Board's decisions for 2002, 2004 and 2005 the approved rates for ORPC's unmetered scattered load customer class ("USL") were identified as being the same as GS<50kW rates which have associated PILs rate slivers. Board staff asked in interrogatory #8 a) why ORPC did not use the Board-approved USL PILs rate slivers in the calculations of recoveries from customers. ORPC replied that "ORPC would note that no billing determinants were entered for USL on the above referenced sheets".

---

6 Exh.4/Tab1/Sch.1/pg22-23/ January 13, 2012.
7 EB-2011-0174, December 22, 2011, pg9-10

Board staff notes that the amount of PILs recovered from the USL class may not be significant, but ORPC did not state that it did not have USL customers during that period from 2001 to 2006. If ORPC actually billed USL customers with its Board-approved rates, then it did recover some amount of money related to PILs that it has not disclosed, or properly explained in its interrogatory replies.

Board staff submits that ORPC should clearly explain, a) whether it billed USL customers using Board-approved rates; and, b) if it did bill USL customers, why it has not disclosed the associated PILs dollar recoveries in its evidence.

All of which is respectfully submitted