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**BY EMAIL**

January 30, 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: West Coast Huron Energy Inc.  
2012 IRM3 Distribution Rate Application  
Board Staff Submission  
Board File No. EB-2011-0203**

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 West Coast Huron Energy Inc. and to all other registered parties to this proceeding.

In addition please remind Coast Huron Energy Inc. that its Reply Submission is due by February 13, 2012.

Yours truly,

*Original Signed By*

Birgit Armstrong  
Advisor, Applications & Regulatory Audit

Encl.



# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION**

### **2012 ELECTRICITY DISTRIBUTION RATES**

West Coast Huron Energy Inc.

EB-2011-0203

**January 30, 2012**

**Board Staff Submission  
West Coast Huron Energy Inc.  
2012 IRM3 Rate Application  
EB-2011-0203**

**Introduction**

West Coast Huron Energy Inc. (“West Coast Huron”) 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* (the “Act”), seeking approval for changes to the distribution rates that West Coast Huron charges for electricity distribution, to be effective May 1, 2012.

In the interrogatory phase, Board Staff identified certain discrepancies in the data entered in the application model by West Coast Huron. 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, West Coast Huron confirmed that they were errors and provided the corrected data. Board Staff will make the necessary corrections to West Coast Huron’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 West Coast Huron.

Board staff makes submissions on the following matters:

- Adjustments to the Revenue-to-Cost Ratios;
- Shared Tax Savings;
- 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 Disposition of Account 1562 ;
- Incremental Capital Module (“ICM”);and
- Lost Revenue Adjustment Mechanism (“LRAM”) Claim.

## **ADJUSTMENTS TO THE REVENUE-TO-COST RATIOS**

### **Background**

West Coast Huron proposed to increase the revenue-to-cost ratio for the Large User customer rate classes to meet the lower boundary of the Board approved target ranges. West Coast Huron proposed to apply the offsetting revenues to the General Service 50kW to 499kW and the 500kW to 4,999kW customer rate classes noting that the ratio for these classes is within the Board target range but are currently the highest.

### **Submission**

In its Decision (EB-2008-0248) the Board found that for the Large User customer class the revenue-to-cost ratio should be increased to 75% in 2009, and in two equal increments in the following two years to reach 85% which is the lower boundary of the Board's range. West Coast Huron noted that the phase-in of the revenue-to-cost ratio for the Large User rate class was not completed as part of its 2011 IRM application.

Board staff submits that the changes proposed by West Coast Huron are consistent with the Board's findings in proceeding EB-2008-0248 and should be approved by the Board.

## **DISPOSITION OF ACCOUNT 1521 – SPECIAL PURPOSE CHARGE (“SPC”) VARIANCE**

### **Background**

West Coast Huron indicated that the difference between the amount remitted to the Ministry of Finance and the amounts recovered from customers through the SPC resulted in a debit balance of \$4,419 in account 1521 (including carrying charges as of April 30, 2012). West Coast Huron noted that the calculated rate riders for one or more classes results in a kWh rate rider of \$(0.0000) when rounded to the fourth decimal place. For that reason, West Coast Huron requested to defer deposition of the residual debit balance of \$4,419 in account 1521, until a future rate proceeding. West Coast Huron requested to record the entire amount in a USoA account to be determined by

the Board.

## **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 West Coast Huron 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 \$4,419 balance in account 1521. Board staff notes that this balance includes the correct calculation of forecasted carrying charges extending to April 30, 2012.

Board staff does note however that Appendix C of Chapter 3 of the Filing Requirements states:

In the event where the calculation of one of more rate classes' rate adder or rate rider results in energy-based kWh rate riders of \$(0.0000) when rounded to the fourth decimal place and demand-based kW rate riders of \$(0.00) when rounded to the second decimal place, or are negligible, the entire Board-approved amount for recovery or refund should be recorded in a USoA account to be determined by the Board for disposition in a future rate setting.

Board staff submits that the Board should approve the balance for recovery and order that West Coast Huron record it in Account 1595 for future disposition

## **SHARED TAX SAVINGS**

### **Background**

West Coast Huron indicated that the amount of tax sharing to be returned to ratepayers is \$1,564. West Coast Huron noted that the calculated rate riders for one or more classes results in a kWh rate rider of \$(0.0000) when rounded to the fourth decimal place. West Coast Huron requested that the entire amount be recorded in a USoA account to be determined by the Board for disposition in a future rate setting.

## **Submission**

As previously noted, the Board approved similar requests in previous decisions. Therefore, Board staff has no issues with this proposal.

## **DISPOSITION OF GROUP 1 DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT AND DISPOSITION OF ACCOUNT 1562**

### **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. The onus will be on the distributor to justify why any Account balance should not be cleared.

West Coast Huron did not complete the Rate Generator model. West Coast Huron requested, as part of this application, temporary relief from filing for disposition of its Group 1 and Account 1562 balances for the following reasons:

1. West Coast Huron has requested from its customers a tornado relief funding adder which has a significant rate impact on its current rate base.
2. West Coast's normal accounting functions have been impaired by the tornado and accounting staff are unable to attend to reconcile these accounts at this time.
3. West Coast Huron is filing a Cost of Service re-basing application for 2013 and would propose to dispose of all balances at that time.

### **Submission**

Board staff notes that at the time of filing West Coast Huron operated under special circumstances due to a tornado that affected the Town of Goderich on August 21, 2011. For that reason Board staff supports West Coast Huron's request to defer the disposition of Group 1 and Account 1562 balances until its next rebasing application for 2013.

## **Incremental Capital Module (“ICM”)**

### **Background**

West Coast Huron proposed to recover, through an ICM, the incremental capital costs of \$2.8M associated with the construction of a dedicated line reaching its single large user (Sifto). This capital expenditure includes approximately \$1.0M to be paid to Hydro One Networks Inc. for costs associated with the new breaker position required for this project and incremental costs of approximately \$1.8M for the line upgrade.

West Coast Huron proposed to allocate the revenue requirement associated with the incremental capital expenditures eligible for cost recovery to its single large user. West Coast Huron proposed to recover these amounts by means of a variable rate rider that would remain in effect until its next cost of service application (scheduled for the 2013 rate year).

West Coast Huron noted that at the time of filing the application, the customer (Sifto) has not committed to contribute any monies to the development of this project. West Coast Huron stated its intention to pursue a contribution in aid of construction consistent with the applicable requirements<sup>1</sup>. In response to Board staff interrogatory No. 11 (d), West Coast Huron indicated that it recently entered into an agreement whereby Sifto will contribute 100% of the cost for the proposed breaker (\$1.0M) and upgrade to the line (\$1.8M) to accommodate their future load<sup>2</sup>. For this reason, West Coast Huron proposed to withdraw the \$2.8M capital component of its 2012 IRM application.

### **Submission**

Board staff notes that the capital contribution requirement is compliant with the Distribution System Code, section 3.2.4. Board staff submits that West Coast Huron's proposal to withdraw the ICM component for the amount of \$2.8M from West Coast Huron's 2012 IRM application is warranted and should be accepted by the Board.

### **LRAM CLAIM**

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<sup>1</sup>Application evidence, E1/T2/S2, p. 8

<sup>2</sup>Response to Board staff interrogatory No. 11 (d)

## 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.

West Coast Huron originally sought to recover a total LRAM claim of \$117,811.78 over a one-year period. In response to Board staff interrogatories, West Coast Huron updated its LRAM claim using the final 2010 OPA program results. West Coast Huron's updated LRAM claim is \$117,866.43. The lost revenues include the effect of CDM programs implemented from 2006-2010. West Coast Huron has requested approval of these savings persisting until April 30, 2012.

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

### *Persisting impacts of 2006-2009 programs and 2009 lost revenues*

West Coast Huron has requested the recovery of an LRAM amount that includes lost revenues for 2009 CDM programs in 2009, as well as the persisting impacts from 2006, 2007, 2008, and 2009 programs from January 1, 2009 to April 30, 2012.

Board staff notes that West Coast Huron's rates were last rebased in 2009.

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 on Hydro One Brampton's 2012 IRM application (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.

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. West Coast Huron may want to highlight in its reply whether the issue of an LRAM application was addressed in their cost of service application.

In the absence of the above information, Board staff therefore does not support the recovery of the requested 2009 lost revenues from 2009 CDM programs or the persisting lost revenues from 2006, 2007, 2008, and 2009 CDM programs in 2009, 2010, 2011, or 2012 as these amounts should have been built into West Coast Huron's last approved load forecast.

*2006, 2007, 2008 and 2010 programs*

Board staff notes that West Coast Huron has not collected the lost revenues associated with CDM programs delivered in 2006, 2007, 2008, and 2010, years when West Coast Huron was under IRM. Board staff supports the approval of the 2006, 2007, 2008, and 2010 lost revenues, including the persisting lost revenues from 2006 programs in 2007 and 2008, and the persisting lost revenues from 2007 programs in 2008, as these lost revenues took place during IRM years and West Coast Huron did not previously seek the recovery of 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).

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

Board staff requests that West Coast Huron provide an updated LRAM amount that only includes lost revenues from 2006, 2007, 2008, and 2010 CDM programs, including the persisting lost revenues noted above, in the years 2006, 2007, 2008, and 2010, and the associated rate riders. Board staff also submits that it is premature to consider any lost revenue from 2010 programs persisting from January 1, 2011 to April 30, 2012.

All of which is respectfully submitted