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BY EMAIL

January 30 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: Essex Powerlines Corporation
2012 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0166

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 Essex Powerlines Corporation and to all other registered parties to this proceeding.

In addition please remind Essex Powerlines Corporation that its Reply Submission is due by February 9, 2012.

Yours truly,

Original Signed By

Sunny Swatch
Analyst, Applications & Regulatory Audit

Encl.

Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Essex Powerlines Corporation

EB-2011-0166

January 30, 2012

Board Staff Submission
Essex Powerlines Corporation
2012 IRM3 Rate Application
EB-2011-0166

Introduction

Essex Powerlines Corportation ("Essex") filed an application (the "Application") with the Ontario Energy Board (the "Board") on November 4, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Essex 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 Essex.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application models by Essex. 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, Essex confirmed certain errors and provided Board staff with the necessary information to make corrections to the models.

Essex is proposing to make the following adjustments to the revenue to cost ratios; 80% to 100% for GS<50 kW class, 51% to 60.67% for Street Lighting and 54% to 60% for Sentinel Lighting. The additional revenue resulting from these adjustments is applied to GS 50 – 2999 kW, and GS 3000 – 4999 kW classes. These adjustments were agreed upon in the Settlement Proposal, filed on February 24, 2010, in Essex's 2010 COS proceeding (EB-2009-0143) and approved by the Board on April 1, 2010.

Board staff has no concerns with Essex's proposed adjustments to revenue to cost ratios as they are consistent with the Board's decision on Essex's last cost of service application.

Essex completed the Shared Tax Saving filing module and determined a credit amount of $160,931 of tax savings out of which $80,466 (50%) is to be refunded to customers through 1-year rate riders for each rate class.

Board staff submits that Essex's request to refund $80,466 to its customers and the resulting calculations of rate riders are in accordance with *Chapter 3 of the Filing Requirements for Transmission and Distribution Applications* (the "Filing Requirements") and should be approved.

Essex's 2010 actual year-end balance for Group 1 Deferral and Variance accounts with interest projected to April 30, 2012 is a credit of $3,452,443 to be refunded back to customers. The total for Group 1 accounts is inclusive of the $3,310,142 credit balance of account1588 - Global Adjustment sub-account. The total Group 1 balance results in a claim of -$0.0059 per kWh, which exceeds the preset disposition threshold. As a result, Essex is eligible to dispose of Group 1 accounts at this time and has applied to do so over a one year period.

Board staff reviewed Essex's Group 1 balances and found that they conformed with those reported in its RRR filing. Consequently, Board staff has no issues with Essex's request to dispose of its 2010 Group 1 Deferral and Variance Account balances over a 1-year period.

Originally, Essex had applied to extend its current approved smart meter funding adder ("SMFA") of $1.96 per metered customer per month beyond its sunset date of April 30, 2012. In response to Board staff interrogatory #8, Essex withdrew its request for the extension of the SMFA beyond April 30, 2012. Board staff makes no further submission on this matter.

Board staff makes detailed submissions on the following matters:

- Disposition of Account 1521 – SPC Variance;
- Disposition of Account 1562; and
- Lost Revenue Adjustment Mechanism ("LRAM").

<u>Disposition of Account 1521 – SPC Variance</u>

Background

Essex is not requesting the disposition of the December 31, 2010 balance of account 1521, Special Purpose Charge Assessment Variance Account at this time and stated that it reserves the right to dispose of the balance in account 1521 in a future COS or IRM proceeding.

In response to Board staff interrogatory #7, Essex stated that its reason for not applying for disposition of account 1521 at this time was that the final balance of account 1521 was unaudited. Essex noted that the audited balance in 1521 for 2010 is a debit of $89,343.39 and that the unaudited balance including recoveries in 2011 is a debit of $10,692.25 plus carrying charges. Essex stated that if the Board would like to accept unaudited balances of December 31, 2011, it would be agreeable to submitting those amounts for disposition in the 2012 IRM proceeding. Essex provided the following table in response to Board staff interrogatory #7.

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	Forecasted Carrying Charges for 2012 (Jan 1 to Apr 30)	Total for Disposition (Principal & Interest)
$213,435	$123,649	$0	$89,786	$0	$80,473	$1,379	$9,313	$10,692	$45	$10,738

Submission

Board staff notes that the usual practice by the Board is to dispose of audited deferral and variance account balances. As Essex noted, the balances provided in its interrogatory response 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..

Subject to the clarifications requested below, Board staff submits that the Board should authorize the disposition of Account 1521 as of December 31, 2010, plus the amount recovered from customers in 2011, including the appropriate carrying charges to April 30, 2012 over a one year period consistent with the disposition of the Group 1 deferral and variance accounts.

Board staff requests that Essex clarify the following two items in its Reply Submission.

First, Board staff notes that Essex did not explicitly outline any carrying charges for 2010 in the table above but did enter carrying charges for 2011 of $1,378.84. Board staff requests that Essex, in its reply submission, confirm that $1,378.84 does not include 2010 carrying charges and if it does to distinguish 2010 carrying charges from 2011 carrying charges. If it does not, Essex may wish to include the carrying charges for 2010 in its reply submission.

Second, Board staff requests Essex to confirm that the $10,692.25 figure entered under Forecasted December 31, 2011 Carrying Charges Balance in the table above is actually the Forecasted Principal Balance plus the Forecasted Carrying Charges to December 31, 2011.

Other than the clarifications requested above, Board staff has no other concerns with the unaudited balance provided by Essex in its interrogatory response. Board staff submits that if the Board decides to dispose of account 1521, the disposition should be on a final basis and account 1521 should be closed.

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

Background

The PILs evidence filed by Essex in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered from customers, SIMPIL[1] Excel worksheets and continuity schedules that show the principal and interest amounts in the account 1562 deferred PILs balance. In pre-filed evidence Essex applied to receive from customers a debit balance of $101,760 consisting of a principal amount of $38,914 plus related carrying charges of $62,846.

Submission

Proration by 92/365 for 2001 Fourth Quarter SIMPIL model

The fourth quarter 2001 is a short tax year because distributors became taxable on October 1, 2001. As such, the tax items such as the true-up variance calculations for Ontario capital tax (OCT) and large corporation tax (LCT) must be pro-rated by 92/365 on the TAXCALC worksheet of the SIMPIL model.

[1]Spreadsheet implementation model for payments-in-lieu of taxes

In its original application, the 2001 SIMPIL model did not prorate for the short tax year and created an incorrect true-up to ratepayers of $47,956 for LCT and $53,375 for OCT since there should be no amounts to true up. In its response to Board staff interrogatory #13, Essex prorated the tax items by 92/365 on the 2001 SIMPIL model and filed the revised 2001 SIMPIL model. The PILs continuity schedule was not updated and still shows a $59,662 debit adjustment instead of a $41,669 credit adjustment for 2001 fourth quarter.

Board staff submits that Essex should file the updated PILs continuity schedule with the revised deferral account variance adjustment of credit $41,669 calculated in the revised 2001 SIMPIL model. Board staff estimates a revised credit balance, or refund to customers, of approximately $47,568 consisting of a principal credit amount of $62,417 minus related debit carrying charges of $14,849.

<u>Volumetric Billing Determinants for GS>50kW Class</u>

Board staff compared the billing determinants reported in Essex's PILs collection worksheets with the billing determinants filed in Essex's 2006 EDR application.[2] Essex seems to have understated the billing determinants in 2003 through 2006. Essex in reply to Board staff interrogatories stated that the billing system was upgraded or replaced in 2005. However, the statistics filed in 2006 EDR should have been accurate based on the application filing date in 2005 and the number of updates that Essex made to its 2006 application during 2005.

Customer Class	Billing Parameter	Billed Consumption 2003	2003 Statistics Filed in 2006 EDR
General Service > 50 KW	kWs	410,110	245,432
Other>50kW	kWs		251,082
Intermediate	kWs	22,414	31,683
		432,524	528,197

[2] RP-2005-0020/ EB-2005-0363; Tab 6-2 DEMAND, RATES (Input)

Customer Class	Billing Parameter	Billed & Unbilled Consumption Jan 1/04 to Mar 31/04	Billed Consumption Apr 1/04 to Dec 31/04	Total Actual 2004	2004 Statistics Filed in 2006 EDR
General Service > 50 KW	kWs	140,464	342,493	482,957	248,888
Other>50kW	kWs	-		-	247,428
Intermediate	kWs	2,285	14,935	17,220	18,760
		142,749	357,428	500,177	515,076

Customer Class	Billing Parameter	Billed & Unbilled Consumption Jan 1/05 to Mar 31/05	Billed Consumption Apr 1/05 to Dec 31/05	Total Actual 2005	2004 Statistics Filed in 2006 EDR
General Service > 50 KW	kWs	132,732	202,996	335,728	248,888
Other>50kW	kWs			-	247,428
Intermediate	kWs	5,630	135,495	141,125	18,760
		138,362	338,491	476,853	515,076

Customer Class	Billing Parameter	Billed & Unbilled Consumption Jan 1/06 to April 30/06	Pro-rated 4/12 2004 Statistics Filed in 2006 EDR	2004 Statistics Filed in 2006 EDR
General Service > 50 KW	kWs	82,536	82,963	248,888
Other>50kW	kWs		82,476	247,428
Intermediate	kWs	57,102	6,253	18,760
		139,638	171,692	515,076

Board staff submits that the 2006 EDR billing determinants in the GS>50kW class are more reliable than the statistics submitted in the PILs collection worksheets. Essex certified that the statistics in the GS>50kW class as filed for 2002 to 2004 in 2006 EDR were reliable for the purpose of deriving the rates to be charged to customers in 2006.

Board staff submits that Essex should use the 2006 EDR billing determinants for 2002, 2003 and 2004 to calculate the PILs billed to customers in the GS>50kW class.

The billing statistics in the GS>50kW class Essex used for 2005 and for the four month period in 2006 are materially different than the statistics for 2004 statistics submitted in 2006 EDR raising questions about these quantities. Board staff requests that Essex provide explanations for this change, and provide updated evidence for collections in these periods if appropriate.

Lost Revenue Adjustment Mechanism ("LRAM")

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.

Essex originally sought to recover a total LRAM claim of $508,029.80 over a one-year period. The lost revenues are associated with the years 2006 to 2012 inclusive and include the effect of CDM programs implemented from 2006-2010. Essex's original claim used preliminary 2010 program results as a best estimate in advance of receiving final 2010 results. Essex subsequently updated its LRAM claim to $509,319.25 based on the OPA's 2010 final program results.

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 and persisting impacts of 2006-2010 programs

Essex has requested the recovery of an LRAM amount that includes the effect of new 2010 programs as well as persistence for 2006-2009 programs in 2010 and 2011 and persistence of 2006-2010 programs from January 1, 2011 to April 30, 2012.

Board staff notes that Essex'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 time[3].

Board staff also notes that in its Decision and Order in 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. Essex may want to highlight in its reply whether the issue of an LRAM application was addressed in its 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 2006-2009 CDM programs in 2010, the lost revenues from 2010 CDM programs in 2010, and the lost revenues from 2006-2010 CDM programs persisting in 2011 and 2012 as these amounts should have been built into Essex's last approved load forecast.

2006-2009 programs

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

Board staff notes that Essex has not collected the lost revenues associated with CDM programs delivered from 2006 to 2009. With the exception of 2006, Essex was under IRM for these years. In 2006, Essex rebased on a historical test year basis and there was no opportunity for Essex to account for CDM activity in its rates. Board staff supports the approval of the 2006, 2007, 2008 and 2009 lost revenues, including the persisting lost revenues from 2006 programs in 2007, the persisting lost revenues from 2006 and 2007 programs in 2008 and the persisting lost revenues from 2006, 2007, and 2008 programs in 2009 as Essex did not have an opportunity to recover these amounts. Board staff notes that this is consistent with the Board's decisions on 2012 IRM applications from Horizon (EB-2011-0172), Hydro One Brampton (EB-2011-0174), and Whitby Hydro (EB-2011-0206).

Board staff requests that Essex provide in its reply submission an updated LRAM amount that only includes lost revenues from 2006-2009 CDM programs, including the persisting lost revenues noted above, in the years 2006, 2007, 2008 and 2009 and the subsequent rate riders.

All of which is respectfully submitted