ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Cambridge and North Dumfries Hydro Inc.

EB-2011-0156

February 6, 2012

Board Staff Submission
Cambridge and North Dumfries Hydro Inc.
2012 IRM3 Rate Application
EB-2011-0156

Introduction

Cambridge and North Dumfries Hydro Inc. ("CND") filed an application (the "Application") with the Ontario Energy Board (the "Board") on November 21, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that CND charges for electricity distribution, to be effective May 1, 2012. The Application is based on the 2012 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 CND.

In the interrogatory phase, Board staff requested certain clarifications to CND's proposals. CND confirmed that certain errors had been made when entering data into the 2012 IRM3 models. These included the Distribution Revenue as entered into the Billing Determinants sheet of the IRM3 Rate Generator; LRAM Rate Riders entered into the IRM3 Rate Generator; the loss factor entered into the RTSR Workform for the residential rate class; and the 2010 tax rate entered into the Tax Savings Workform. For all cases, the correct information was provided by CND. Board staff confirms that it will make these corrections in the final models in this case.

Through the IRM3 Rate Generator model, CND has determined that the balances in its Group 1 deferral and variance accounts do not meet the threshold for disposition. CND has provided the required detail in its continuity tables to support this calculation. Rate riders for deferral and variance account disposition have been calculated to recover Accounts 1521 and 1562 balances over one year. Board staff supports CND's proposal, subject to the comments provided below regarding the balances in these accounts.

Board staff makes detailed submissions on the following matters:

- RTS Billing Detail;
- Disposition of Account 1521;
- LRAM; and
- Disposition of Account 1562 (PILs)

RTS Billing Detail

In completing the RTSR Workform to calculate retail transmission service costs, distributors must provide historical wholesale billing information from the IESO and Hydro One. Board staff noted that CND's units billed by Hydro One for July 2010 appeared to be inconsistent with amounts billed over the rest of the year, as shown below:

HYDRO ONE	Network		
Month	Units Billed	Rate	Amount
January	6,209	$2.24	$ 13,908
February	6,011	$2.24	$ 13,465
March	5,262	$2.24	$ 11,787
April	4,730	$2.24	$ 10,595
May	6,434	$2.62	$ 16,874
June	6,361	$2.65	$ 16,857
July	12,704	$2.65	$ 33,666
August	6,639	$2.65	$ 17,593
September	7,010	$2.65	$ 18,577
October	5,196	$2.65	$ 13,769
November	5,605	$2.65	$ 14,853
December	6,412	$2.65	$ 16,992
Total	78,573	$ 2.53	$ 198,936

In response to an interrogatory to verify this inconsistency, CND replied that the amounts billed by Hydro One are correct.

Board staff requests that CND provide further clarification in its reply submission. Specifically, while 12,704 may indeed be the amount of units shown on the July 2010 invoice from Hydro One, Board staff requests that CND verify with Hydro One that the units billed for that month are correct and provide an explanation for the significant increase. If adjustments to the model are required, these can be made by Board staff in the final models for this proceeding. Subject to the clarification requested above, Board staff has no concerns with the CND's calculations of its RTS rates for 2012.

Disposition of Account 1521

CND's application contains a proposal to recover its forecast credit balance in Account 1521 of $80,531, consisting of the forecast balance at December 31, 2011, and projected carrying charges to April 30, 2012. CND paid its invoice for $580,711 on July 30, 2010 and recovered the special purpose charge from customers over the period from May 1, 2010 to April 30, 2011.

Board staff notes that the usual practice by the Board is to dispose of audited deferral and variance account balances. The final balance proposed for disposition will be an unaudited balance. 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 requests that CND provide an update to the balance of this account to include actual principle and interest balances as at December 31, 2011 in its reply submission and a revised calculation of carrying charges to April 30, 2012.

Subject to this request, Board staff submits that the Board should authorize the disposition of Account 1521 as of December 31, 2010, adjusted by the amount recovered from customers in 2011, including the appropriate carrying charges to April 30, 2012.

LOST REVENUE ADJUSTMENT MECHANISM ("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.

In its decision on Horizon's application (EB-2009-0192) for LRAM recovery, the Board noted that distributors should use the most current input assumptions available at the time of the third party review when calculating a LRAM amount.

CND originally sought to recover a total LRAM claim of $190,487.92 over a one-year period. In response to Board staff interrogatories, CND updated its LRAM claim using the final 2010 OPA program results. CND's updated LRAM claim is $191,859.88, which includes $5,148.56 of carrying charges. The lost revenues pertain to 2009 and include the persisting CDM impacts from programs implemented from 2006 to 2008 in 2009 and the effects of new CDM impacts from 2009 CDM programs in 2009.

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2009 Lost Revenues Arising from Persisting Impacts of 2006-2008 Programs and 2009 Programs

Board staff notes that CND last rebased in 2010, therefore CND has not collected the new or persisting lost revenues in 2009 associated with CDM programs delivered in 2006, 2007, 2008, and 2009. Board staff notes that with the exception of 2006, CND was under IRM during this period. In 2006, CND rebased on a historical test year basis and there was no opportunity to account for future CDM effects. Board staff supports the approval of the requested 2009 lost revenues, including the persisting lost revenues from 2006, 2007, and 2008 programs in 2009 as these lost revenues took place during years that CND 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).

Disposition of the Balance in Account 1562 Deferred PILs

Background

The PILs evidence filed by CND 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, CND applied to collect from customers a debit balance of $306,922 consisting of a principal amount of $76,207 plus related carrying charges of $230,715.

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Board staff notes that CND changed formulas in the SIMPIL models on the TAXCALC sheet for the years 2002, 2003 and 2004. While the Board instructed applicants to use the models resulting from the Combined PILs Proceeding, Board staff submits that CND had to make the changes to reflect a certain prior Board decision in 2002.

In 2002, CND received approval to change its late payment charge recovery from a 5% one-time charge on the outstanding receivable balance to a revolving charge of 1.5% per month. This lost revenue was monetized at $269,401, and the base distribution rates were increased on sheet 3 of the 2002 RAM. However, when CND completed the 2002 PILs proxy model it included the amount as a regulatory adjustment addition rather than as part of regulatory net income which does not true-up under the SIMPIL methodology. When completing the SIMPIL models, CND entered the line item data from the approved 2002 PILs proxy model. In order to retain the approved 2002 regulatory net income, CND had to delete the reversal of the amount in the true-up calculations. Lost revenue related to the late payment charge was not considered a regulatory asset since base distribution rates were adjusted immediately to compensate CND. The total revenue requirement remained the same.

Board staff does not oppose CND's alteration of the SIMPIL models in this isolated instance since CND received Board approval for the full regulatory income treatment in its 2002 application.

In all other respects, Board staff submits that CND has followed the regulatory guidance and the decisions issued by the Board, in determining the amounts in its Account 1562 Deferred PILs evidence to be recovered from its customers.[2]

All of which is respectfully submitted

[1]Spreadsheet implementation model for payments-in-lieu of taxes
2 Decisions in Combined Proceeding, EB-2008-0381 – August 12, 2011; June 24, 2011; December 23, 2010; December 18, 2009. Hydro One Brampton, EB-2011-0174, December 22, 2011. Whitby Hydro, EB-2011-0206, December 22, 2011. Staff Discussion Paper, August 20, 2008.