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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: Kitchener-Wilmot Hydro Inc.  
2012 IRM3 Distribution Rate Application  
Board Staff Submission  
Board File No. EB-2011-0179**

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Kitchener-Wilmot Hydro Inc. and to all other registered parties to this proceeding.

In addition please remind Kitchener-Wilmot Hydro Inc. that its Reply Submission is due by February 9, 2012.

Yours truly,

*Original Signed By*

Georgette Vlahos  
Analyst, Applications & Regulatory Audit

Encl.



# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION**

**2012 ELECTRICITY DISTRIBUTION RATES**

**Kitchener-Wilmot Hydro Inc.**

**EB-2011-0179**

**January 30, 2012**

**Board Staff Submission  
Kitchener-Wilmot Hydro Inc.  
2012 IRM3 Rate Application  
EB-2011-0179**

## **Introduction**

Kitchener-Wilmot Hydro Inc. (“Kitchener-Wilmot”) 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 Kitchener-Wilmot charges for electricity distribution, to be effective May 1, 2012. The Application is based on the 2012 3<sup>rd</sup> 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 Kitchener-Wilmot.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application model by Kitchener-Wilmot. 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, Kitchener-Wilmot confirmed that they were errors and provided the corrected data. Board staff will make the necessary corrections to Kitchener-Wilmot’s model at the time of the Board’s Decision on the application.

During the interrogatory phase of this proceeding, Board staff noted that it was unable to verify the Tax-Savings Workform, specifically data entered for the line items “Tax Impact” and “Grossed-up Tax Amount”, with Kitchener-Wilmot’s 2010 Revenue Requirement Workform (“RRWF”). Kitchener-Wilmot agreed with Board staff and requested Board staff to make the necessary corrections to the workform. In all other respects, Kitchener-Wilmot completed the Tax-Savings Workform with the correct rates and reflects the Revenue Requirement Work Form from the Board’s cost of service decision in EB-2009-0267.

Kitchener-Wilmot completed the Deferral and Variance Account continuity schedule included in the 2012 IRM Rate Generator Model at Tab 9 for its Group 1 Deferral and Variance Accounts. Kitchener-Wilmot’s total Group 1 Deferral and Variance Account

balances amount to a credit of \$261,585 as of December 31, 2010 which includes interest calculated to April 30, 2012. Based on the threshold test calculation, the Group 1 Deferral and Variance Account balances equates to \$0.00014 per kWh which does not exceed the threshold, and as such, Kitchener-Wilmot did not request disposition of these accounts. Board staff has no issue with Kitchener-Wilmot's request to not dispose of its 2010 Deferral and Variance Account balances at this time.

Board staff notes that the principal balances as of December 31, 2010 reconcile with the balances reported as part of the *Reporting and Record-keeping Requirements* except for the misclassification of interest for Account 1588. In its application, Kitchener-Wilmot noted that "the aggregate balance of RSVA Power is reported as (a debit of) \$3,533,792. However, through RRR reporting, the balance of RSVA – Power – Global Adjustment was understated by the interest amount attributed to this sub-account of \$125,859. By virtue of this understatement, the RSVA Power *without* Global Adjustment would therefore have been over stated by the same interest amount<sup>1</sup>."

Board staff notes that this error does not appear to impact the outcome of the threshold test. In its interrogatory responses, Kitchener-Wilmot confirmed that it had conducted an analysis and has verified that the balances of both the RSVA Power and the RSVA – Power – Global Adjustment Sub-Account are correct on an individual basis<sup>2</sup>. Board staff has no concerns with this correction and accepts that the corrected balance will be disposed in Kitchener-Wilmot's next rate application.

Kitchener-Wilmot provided a reconciliation of Account 1521 – Special Purpose Charge as requested by Board staff during the interrogatory phase. Board staff notes that the usual practice by the Board is to dispose of audited deferral and variance account balances. 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.

Based on Kitchener-Wilmot's reconciliation, Board staff supports Kitchener-Wilmot's request to dispose of the updated balance in this account of a debit of \$16,976.28. 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

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<sup>1</sup> EB-2011-0179, Manager's Summary, Page 6

<sup>2</sup> EB-2011-0179, Interrogatory Responses, #4(e)

the appropriate carrying charges to April 30, 2012. 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.

With respect to disposition period, Board staff submits that Account 1521 should be disposed of over a period of one year.

Board staff makes detailed submissions on the following matters:

- Smart Meter Funding Adder (“SMFA”);
- Lost Revenue Adjustment Mechanism Claim (“LRAM”); and
- Payments in Lieu of Taxes – PILS 1562

## **SMART METER FUNDING ADDER**

### **Background**

In accordance with the G-2008-0002 *Guideline for Smart Meter Funding and Cost Recovery* issued by the Board on October 22, 2008, Kitchener-Wilmot received a utility-specific Smart Meter Funding Adder (“SMFA”) of \$2.00 per metered customer per month through its 2011 IRM Application (EB-2010-0094). In the current application, Kitchener-Wilmot populated the updated Smart Meter Model with audited amounts to December 31, 2010 and forecasted amounts for 2011 and 2012. Kitchener-Wilmot is requesting that the Board approve a revised SMFA of \$1.74 per metered customer per month on an interim basis only until Kitchener-Wilmot’s stand-alone Smart Meter Application review is completed and final rates are established and approved by the Board.

As of December 31, 2010, Kitchener-Wilmot’s total audited capital costs for its smart meter program reached 90.2% of its total forecast costs with 96% of its total smart meters installed<sup>3</sup>. As such, Kitchener-Wilmot intends to file a stand-alone application for the Disposition and Revenue Requirement rate riders shortly, with an expected implementation of May 1, 2012.<sup>4</sup>

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<sup>3</sup> EB-2011-0179, Application, Page 5

<sup>4</sup> *Ibid*

## Submission

The Board may wish to consider that the cessation of the SMFA without replacement until a decision on a utility's application for final smart meter cost disposition can be rendered would create rate fluctuations, and possibly result in customer confusion; this should be avoided to the extent possible. Further, until a decision on smart meter cost disposition is rendered, the total deferred revenue requirement would continue to increase in the absence of even partial recovery through an SMFA. Board staff therefore submits that the Board may wish to consider continuation of the SMFA until it is replaced by an SMDR and SMIRR resulting from the Board's decision in a stand-alone application seeking disposition of the utility's smart meter costs.

With this in mind, Board staff submits that the Board may wish to consider continuance of the SMFA with a specific termination date. Board staff notes that the SMFA, if approved by the Board, could be continued on a permanent basis, as opposed to the interim basis requested by Kitchener-Wilmot. Although Board staff notes that the SMFA is, by its very nature, an interim charge until a final review has taken place there is no significance as to whether the continuation of a SMFA is on a interim or permanent basis.

Board staff is of the view that establishing a termination date of October 31, 2012 would be reasonable. By that time, Kitchener-Wilmot should have completed its smart meter program. Further, this will allow sufficient time for the utility to prepare and file an application in accordance with the recently issued Guideline and model and for the Board to process such an application. Board staff notes that such an application should be filed by no later than May 31, 2012 to allow sufficient time for the application to be processed in time for an November 1, 2012 implementation. Given that the calculation produced by the Smart Meter Model is lower than the current SMFA, Board staff would support approval of a SMFA of \$1.74 per metered customer per month.

## 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.

Kitchener-Wilmot originally sought to recover a total LRAM claim of \$569,663.88 over a two-year period. Kitchener-Wilmot is requesting recovery of lost revenues that took place in 2009, 2010, and 2011. The LRAM amount for 2009 includes lost revenues from 2009 CDM programs. The LRAM amount for 2010 includes persisting lost revenues from 2006-2009 CDM programs as well as new lost revenues from 2010 CDM programs. The LRAM amount for 2011 is comprised of persisting lost revenues from 2006-2010 CDM programs. Kitchener-Wilmot’s original claim used preliminary 2010 OPA program results as a best estimate in advance of receiving final 2010 results. Kitchener-Wilmot subsequently updated its LRAM claim to \$692,816.62, which includes carrying charges of \$13,316.18, based on the OPA’s 2010 final program results.

The Board’s CDM Guidelines 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

#### *2010 programs and persisting impacts of 2006-2010 programs*

Kitchener-Wilmot 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. Kitchener-Wilmot has also requested approval for the persistence of 2006-2010 program savings from January 1, 2011 to December 31, 2011

Board staff notes that Kitchener-Wilmot's rates were last rebased in 2010. Included in Kitchener-Wilmot's 2010 load forecast was a 0.53% reduction for forecasted OPA CDM programs.

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>5</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 an LRAM claim 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. Kitchener-Wilmot 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 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, or the lost revenues from 2006-2010 CDM programs persisting from January 1, 2011 to December 31, 2011 as these amounts should have been built into Kitchener-Wilmot's last approved load forecast.

### *2009 programs*

Board staff notes that Kitchener-Wilmot has not collected all lost revenues associated with CDM programs delivered in 2009, a year where Kitchener-Wilmot was under IRM.

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<sup>5</sup> Section 5.2: Calculation of LRAM, Guidelines for Electricity Distributor Conservation and Demand Management (EB-2008-0037)



Board staff supports the approval of the 2009 lost revenues (\$93,397.88, not including carrying charges) requested by Kitchener-Wilmot as these lost revenues took place during IRM years and Kitchener-Wilmot did not have an opportunity to recover these amounts. Board staff notes that this is consistent with what the Board noted in its 2012 IRM decisions on applications from Horizon (EB-2011-0172), Hydro One Brampton (EB-2011-0174), and Whitby Hydro (EB-2011-0206).

Board staff requests that Kitchener-Wilmot provide an updated total LRAM amount that reflects lost revenues for 2009 CDM programs in the year 2009, the associated carrying charges, and the subsequent rate riders.

## **PAYMENTS IN LIEU OF TAXES – PILS 1562**

### **Background**

The PILs evidence filed by Kitchener-Wilmot in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered from customers, SIMPIL<sup>6</sup> Excel worksheets and continuity schedules that show the principal and interest amounts in the account 1562 deferred PILs balance. In pre-filed evidence Kitchener-Wilmot applied to refund to customers a credit balance of \$174,184 consisting of a principal credit amount of \$360,666 minus related debit carrying charges of \$186,482.

### **Submission**

#### **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 the TAXCALC sheet as an extra deduction in the true-up calculations.

Kitchener-Wilmot replied to Board staff's interrogatories and provided a table that discloses the components of its interest expense for the period 2001 to 2005.<sup>7</sup> The Board-approved maximum deemed interest expense was \$5,387,350.

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<sup>6</sup>Spreadsheet implementation model for payments-in-lieu of taxes

<sup>7</sup> Responses to Board Staff Interrogatories dated January 13, 2012/PDFpg24.

	2001	2002	2003	2004	2005
Interest on Long Term Debt	2,886,080	3,601,828	5,387,350	5,402,110	5,387,350
Interest on Short Term Debt	19,181	22,018	-	-	-
Interest on Security Deposits	64,910	34,207	50,237	90,014	98,107
Interest on IESO Prudentials		57,757	93,085	89,701	89,456
Interest on PILS Returns					4,056
	2,970,171	3,715,810	5,530,672	5,581,825	5,578,968

In its original PILs application, the 2003, 2004 and 2005 SIMPIL models used interest deducted on the tax returns and actual interest paid to calculate the excess amount causing a zero true-up since these numbers are equal. Board staff asked in interrogatories why the 2003, 2004 and 2005 SIMPIL models used ‘actual interest paid’ and not ‘maximum deemed interest’ in the calculation of excess claw-back as reflected in the combined proceeding. Board staff also asked if Kitchener-Wilmot should be subject to the settlement of Issue 13 related to the excess interest claw-back in the combined proceeding. Kitchener-Wilmot responded:

“KWHI is unsure of how and when the model was changed. Yes, upon changing the model to reflect the discussion above, KWHI is subject to the excess interest claw-back.”

In its response, Kitchener-Wilmot revised the 2003 and 2004 SIMPIL models TAXCALC worksheet cell E202 to ‘total deemed interest’ to trigger a true-up of the excess interest claw-back on TAXCALC worksheet cell E112. However, the 2005 SIMPIL model was not updated to reflect the total deemed interest and the calculation of the excess interest claw-back.

Board staff submits that Kitchener-Wilmot should change the 2005 SIMPIL TAXCALC sheet cell E202 “actual interest paid” of \$5,578,968 to “total deemed interest” of \$5,387,350 to trigger a true-up of the variance caused by excess interest expense and file the revised 2005 SIMPIL model, PILs continuity schedule and EDDVAR continuity schedule in Excel format. Kitchener-Wilmot should also file the updated 2003 and 2004 SIMPIL models with corrected interest claw-back adjustments from Board Staff Interrogatories Appendix C and D in Excel format.

### Components of Interest Expense

As disclosed in the table above, Kitchener-Wilmot has also included interest on customer security deposits, IESO prudentials and on PILs returns.

The Board decided in EB-2011-0174 that Hydro One Brampton's interest expense used to calculate the interest claw-back variance should not include interest on customer deposits.<sup>8</sup> To the best of Board staff's knowledge, the Board has not yet decided if interest on IESO prudentials and on PILs returns should be included in interest expense for the SIMPIL claw-back variance calculations.

Board staff submits that Kitchener-Wilmot should clarify if the interest on IESO prudentials is a stand-by fee for providing, but not drawing on, a line of credit. If Kitchener-Wilmot confirms that the IESO has drawn down the line of credit because of non-payment of commodity invoices, then Board staff submits that this interest expense relates to debt and should be included in the interest claw-back variance calculations.

Kitchener-Wilmot should clarify if the interest on PILs returns is penalty interest because Kitchener-Wilmot paid PILs tax instalments that were insufficient. If Kitchener-Wilmot confirms that the amount is for penalty interest related to insufficient tax instalments, then Board staff submits that this penalty interest should be excluded from the interest claw-back variance calculations.

Board staff submits that interest on customer deposits should be deducted from total interest expense per the financial statements to be consistent with the Board's decision for Hydro One Brampton.

Kitchener-Wilmot should change the amount of interest expense used in the 2001-2005 SIMPIL model interest claw-back penalty calculations to reflect Board staff's submissions, and update the PILs 1562 continuity schedule and balance to be refunded to customers. Kitchener-Wilmot should file a schedule of revised interest expense identifying the components in a format similar to that above shown.

All of which is respectfully submitted

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<sup>8</sup> EB-2011-0174, December 22, 2011, pg. 9-10