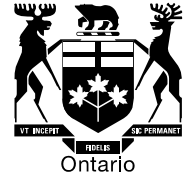


Ontario Energy Board
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BY EMAIL

February 9, 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: Canadian Niagara Power Inc. – Fort Erie & Eastern Ontario Power
2012 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0158**

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 Canadian Niagara Power Inc. – Fort Erie & Eastern Ontario Power and to all other registered parties to this proceeding.

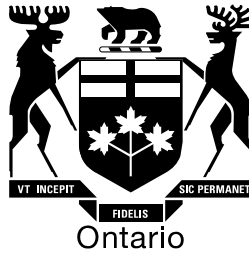
In addition please remind Canadian Niagara Power Inc. – Fort Erie & Eastern Ontario Power that its Reply Submission is due by February 24, 2012.

Yours truly,

Original Signed By

Daniel Kim
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

**Canadian Niagara Power Inc. – Fort Erie &
Eastern Ontario Power**

EB-2011-0158

February 9, 2012

**Board Staff Submission
Canadian Niagara Power Inc. – Fort Erie & Eastern Ontario Power
2012 IRM3 Rate Application
EB-2011-0158**

Introduction

Canadian Niagara Power Inc. (“CNPI”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”), received on November 10, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that CNPI charges for electricity distribution, to be effective May 1, 2012. CNPI operates in three service areas: Port Colborne, Fort Erie and Gananoque (Eastern Ontario Power). This Application pertains to the Fort Erie and Gananoque service areas. The Application is based on the Board’s guidelines for 3rd Generation Incentive Regulation Mechanism (“IRM”).

CNPI proposed to defer the disposition of Account 1562 (deferred PILs) to its 2013 cost of service application. In a letter dated November 14, 2011, CNPI explained that it believes that it will need to file on a basis that will differ significantly from the decisions made in the Combined PILs proceeding (EB-2008-0381). In a letter dated November 15, 2011, the Board agreed with CNPI that, given its circumstances, it will likely need to file evidence supporting the disposition of Account 1562 on a basis that differs significantly from the Combined PILs decision. Accordingly, the Board determined that it would not hear the application for the disposition of Account 1562 as part of this proceeding, and granted approval to defer the disposition of Account 1562 to CNPI’s 2013 cost of service application.

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

Board staff makes submissions on the following matters:

- Disposition of Group 1 Deferral and Variance Accounts as per the *Electricity Distributors' Deferral and Variance Account Review Report* (the “EDDVAR Report”);
- Account 1521 – Special Purpose Charge (“SPC”); and
- Lost Revenue Adjustment Mechanism (“LRAM”) and Shared Savings Mechanism (“SSM”) Claim.

DISPOSITION OF GROUP 1 DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT

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 December 31, 2010 actual year end amount for Group 1 accounts with interest projected to April 30, 2012 is a credit balance of \$349,749 for the Fort Erie service area. Credit balances are amounts refundable to customers. This amount results in a total claim of \$0.00115 per kWh which exceeds the preset disposition threshold.

The December 31, 2010 actual year end amount for Group 1 accounts with interest projected to April 30, 2012 is a debit balance of \$36,726 for the Gananoque service area. Debit balances are amounts recoverable from customers. This amount results in a total claim of \$0.00058 per kWh which does not exceed the preset disposition threshold. Therefore, CNPI proposed not to dispose of the Group 1 account balances for the Gananoque service area.

In its Manager's Summary, CNPI noted that in the fourth quarter of 2011, CNPI submitted Cost of Power and Global Adjustment true-ups to the IESO related to 2010 for both Fort Erie and Gananoque. As a result of these true-ups, there are variances in the continuity schedule for deferral and variance accounts and the RRR amounts reported.

In response to Board staff interrogatory #2, CNPI confirmed its proposal to dispose of the Group 1 account balances over a one year period for the Fort Erie service area.

In response to Board staff interrogatory #7, CNPI confirmed that the upgrade to its customer billing architecture will be completed on time to implement a separate rate rider applicable to non-RPP customers to dispose of the global adjustment sub-account balance for May 1, 2012 rates for the Fort Erie service area .

Submission

Board staff has reviewed CNPI's Group 1 Deferral and Variance account balances for the Fort Erie service area and notes that the principal amounts to be disposed of as of December 31, 2010, excluding the true-up to the IESO mentioned above, reconcile with the amounts reported as part of the RRR.

Board staff requests that in its Reply Submission, CNPI confirm that the IESO true-ups are related to 2010 only. Board staff also requests CNPI provide an explanation of the nature of these true-ups.

Board staff submits that CNPI's proposal for a one year disposition period for Fort Erie service area Group 1 account balances is in accordance with the EDDVAR Report.

Board staff has also reviewed CNPI's Group 1 account balances for the Gananoque service area and notes that the principal amounts as of December 31, 2010, excluding the IESO true-ups, reconcile with the amounts reported as part of the RRR filings. The Group 1 account balances and projected carrying charges to April 30, 2012 is a debit of \$36,726, which does not exceed the preset disposition threshold. Therefore, Board staff has no issue with CNPI not disposing of its Group 1 Deferral and Variance account balances for the Gananoque service area.

Board staff submits that the Board should direct CNPI to dispose of the global adjustment sub-account by means of a rate rider included in the delivery component of the bill that will apply prospectively to non-RPP customers.

ACCOUNT 1521 – SPECIAL PURPOSE CHARGE (“SPC”)

Background

In response to Board staff interrogatory #8, CNPI completed the tables below, and noted minor variations from the amounts originally included in the application due to updated account information. CNPI began charging the SPC on May 1, 2010 and ended the recovery of the SPC on April 30, 2011 for both Fort Erie and Gananoque.

CNPI – Fort Erie

| 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 April 30, 2012 Carrying Charges Balance | Total for Disposition (Principal and Interest) |
|------------------------------------|---|---------------------------|--|---|---|---------------------------|---|--|--|
| 113,483 | 73,313 | | 40,170 | | 36,527 | 482 | 3,643 | 18 | 4,143 |

CNPI – Eastern Ontario Power

| 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 April 30, 2012 Carrying Charges Balance | Total for Disposition (Principal and Interest) |
|------------------------------------|---|---------------------------|--|---|---|---------------------------|---|--|--|
| 25,846 | 14,129 | | 11,717 | | 10,028 | 140 | 1,689 | 8 | 1,837 |

CNPI noted that the calculated rate riders for one or more rate classes in the Gananoque service area results in a kWh rate rider of \$(0.0000) when rounded to the fourth decimal place. As a result, CNPI requested to defer the disposition of the residual debit balance in Account 1521 until a future rate proceeding.

Submission

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.

Board staff has no concerns with the balances in Account 1521 presented by CNPI.

With respect to CNPI's proposal to defer the disposition of Account 1521 in a future rate proceeding for the Gananoque service area, Board staff notes that Appendix C of Chapter 3 of the Filing Requirements states that:

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 CNPI record these amounts in Account 1595 for future disposition for the Gananoque service area.

Board staff also submits that the Board should approve the balance for recovery and order CNPI to dispose on a final basis the amount in Account 1521 for the Fort Erie service area over a one-year disposition period.

LRAM AND SSM CLAIM

Background

In response to Board staff interrogatory #9, CNPI confirmed that it is not requesting LRAM and/or SSM recoveries in its 2012 IRM application for the Fort Erie and Gananoque service areas.

Submission

Section 2.7.10 Conservation and Demand Management ("CDM") Costs, under *Chapter 2 of the Filing Requirements for Transmission and Distribution Applications*, dated June 22, 2011, states that distributors intending to file an LRAM and/or SSM application for

CDM Programs funded through distribution rates, or an LRAM application for CDM Programs funded by the OPA between 2005 and 2010, shall do so as part of their 2012 rate application filings, either cost-of-service or IRM. If a distributor does not file for the recovery of LRAM and/or SSM amounts in its 2012 rate application, it will forego the opportunity to recover LRAM and/or SSM for this legacy period of CDM activity.

Board staff submits that by not requesting an LRAM and/or SSM recovery as part of its 2012 IRM application, CNPI is foregoing the opportunity to recover LRAM and/or SSM for 2005 to 2010 of CDM activities.

All of which is respectfully submitted