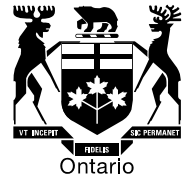


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BY EMAIL

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: Lakeland Power Distribution Ltd. ("Lakeland")
2012 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0180**

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 Lakeland Power Distribution Ltd. and to all other registered parties to this proceeding.

In addition please remind Lakeland Power Distribution Ltd. that its Reply Submission is due by February 24, 2012.

Yours truly,

Original signed by

Christiane Wong
Information Administrator, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Lakeland Power Distribution Ltd.

EB-2011-0180

February 9, 2012

**Board Staff Submission
Lakeland Power Distribution Ltd.
2012 IRM3 Rate Application
EB-2011-0180**

Introduction

Lakeland Power Distribution Ltd. ("Lakeland") 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 Lakeland charges for electricity distribution, to be effective May 1, 2012. The Application is based on the Board's guidelines for 3rd Generation Incentive Regulation Mechanism. On November 22, 2011, Lakeland filed a revised application to update the billing determinants for customer classes that are billed on kW (GS>50 kW, Sentinel lighting, Streetlighting) on the Retail Transmission Service Rates ("RTSR") Workform.

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 Lakeland.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application models by Lakeland. 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, Lakeland confirmed certain errors as described below and provided the necessary corrections to the models.

Lakeland completed the Rate Generator Workform with 2009 RRR data as billing determinants instead of 2010 Reporting and Record-keeping Requirements ("RRR") or the 2009 Board approved volumetric forecast. In response to Board staff interrogatory #4, Lakeland agreed to change the billing determinants and use the most recent 12-month volumetric data from the 2010 RRR.

Board staff makes submissions on the following matters:

- Disposition of Group 1 Deferral and Variance Account Balances;
- Account 1521 – Special Purpose Charge ("SPC");
- Account 1562 – PILs Disposition; and
- Lost Revenue Adjustment Mechanism ("LRAM").

DISPOSITION OF GROUP 1 DEFERRAL AND VARIANCE ACCOUNT BALANCES

Background

The *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative* (the "EDDVAR Report") provides that during the IRM plan term, the 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.

Lakeland completed the 2012 IRM Rate Generator Model. The 2010 actual year-end balance for Group 1 accounts with interest projected to April 30, 2012 is a debit of \$110,065. Debit balances are amounts recoverable from customers. This amount results in a total claim of \$0.00052 per kWh, which is below the preset disposition threshold. As a result, Lakeland is not seeking disposition of this amount at this time.

Submission

Board staff has reviewed Lakeland's Group 1 Deferral and Variance account balances and notes that the principal balances as of December 31, 2010 reconcile with the balances reported as part of the RRR. Board staff also notes that the change to the billing determinants to reflect the 2010 RRR amounts results in a total claim that is still below the preset disposition threshold. Therefore, Board staff has no issue with Lakeland's request to not dispose of its 2010 Deferral and Variance Account balances at this time.

ACCOUNT 1521 – SPECIAL PURPOSE CHARGE ("SPC")

Background

In response to Board staff interrogatory #5, Lakeland completed the following table which indicates a residual balance of \$3,836.99 for disposition, comprising principal as of December 31, 2011 and interest to April 30, 2012.

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 Year End Carrying Charges Balance	Forecasted Carrying Charges for 2012 (Jan.1 to Apr.30)	Total for Disposition (Principal & Interest)
\$85,594.00	\$44,188.08	\$366.45	\$41,405.92	\$366.45	\$38,134.60	\$183.22	\$3,271.32	\$549.67	\$16.00	\$3,836.99

Submission

Board staff notes that the usual practice by the Board is to dispose of audited deferral and variance account balances. Board staff further 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 also notes that the Board's letter issued on April 23, 2010 to all Licensed Electricity Distributors stated:

“In accordance with section 8 of the SPC Regulation, you are required to apply to the Board no later than April 15, 2012 for an order authorizing you to clear any debit or credit balance in “Sub-account 2010 SPC Variance”.

Accordingly, 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 carrying charges as of 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.

Account 1562 – PILs Disposition

Background

The PILs evidence filed by Lakeland in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered

from customers, SIMPIL¹ Excel worksheets and continuity schedules that show the principal and interest amounts in the account 1562 deferred PILs balance. In pre-filed evidence Lakeland applied to recover from customers a debit balance of \$15,091 consisting of a principal credit amount of \$11,499 plus related debit carrying charges of \$26,589.

Submission

Board staff submits that Lakeland 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 Board staff supports Lakeland's proposal as submitted.

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 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.

Lakeland originally requested to recover a total LRAM claim of \$109,850. In reply to Board staff interrogatory #6 b), Lakeland updated its LRAM claim using final 2010 program results from the OPA. Lakeland is now requesting approval of an updated LRAM claim of \$108,225, including carrying charges of \$6,055, over a one-year period. The lost revenues include the effect of CDM programs implemented from 2006-2010.

Submission

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.

Persisting impacts of 2006-2009 programs and 2009 lost revenues

Lakeland has requested the recovery of an LRAM amount that includes lost revenues in 2009 for 2009 CDM programs and for the persisting impacts from 2006-2008 CDM programs in 2009. Lakeland has also requested recovery of the persisting lost revenues from programs delivered from 2005-2009 in 2010.

Board staff notes that Lakeland'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 time³.

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. Lakeland 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 lost revenues in 2009 for 2009 CDM programs, persisting lost revenues from 2006-2008 CDM programs in 2009 or the persisting lost revenues from

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

2006, 2007, 2008, and 2009 CDM programs in 2010 as these amounts should have been built into Lakeland's last approved load forecast.

LRAM - 2006, 2007, 2008 and 2010 programs

Board staff notes that Lakeland has not collected the lost revenues associated with CDM programs delivered in 2006, 2007, 2008 and 2010. Staff notes that with the exception of 2006, Lakeland was under IRM during this period. In 2006, Lakeland rebased on a historical test year basis and there was no opportunity to account for CDM effects. Board staff supports the approval of the 2006, 2007, 2008, and 2010 lost revenues, including the persisting lost revenues from 2006 programs in 2007, the persisting lost revenues from 2006 and 2007 programs in 2008, as Lakeland 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).

Board staff requests that Lakeland provide an updated LRAM amount that only includes lost revenues from 2006-2008 CDM programs and 2010 CDM programs, including the persisting lost revenues noted above, in the years 2006, 2007, 2008, and 2010 and the associated rate riders.

All of which is respectfully submitted