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Ontario

BY EMAIL

February 17, 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: Middlesex Power Distribution Corporation – Main
2012 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0148

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 Middlesex Power Distribution Corporation – Main and to all other registered parties to this proceeding.

In addition please remind Middlesex Power Distribution Corporation – Main that its Reply Submission is due by March 2, 2012.

Yours truly,

Original Signed By

Daniel Kim
Analyst, Applications & Regulatory Audit

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Middlesex Power Distribution Corporation – Main

EB-2011-0148

February 17, 2012

Board Staff Submission
Middlesex Power Distribution Corporation – Main
2012 IRM3 Rate Application
EB-2011-0148

Introduction

Middlesex Power Distribution Corporation – Main ("MPDC – Main") filed an application (the "Application") with the Ontario Energy Board (the "Board"), received on November 25, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that MPDC – Main 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.

In a letter dated November 16, 2011, MPDC – Main requested an extension to January 23, 2012 to file the evidence supporting the disposition of Account 1562 (deferred PILs). In a letter dated November 23, 2011, the Board directed MPDC – Main to file their 2012 IRM application excluding the disposition of Account 1562. The Board further directed MPDC – Main to file a stand-alone application, by no later than April 1, 2012, for the disposition of Account 1562.

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 MPDC – Main.

Board staff makes submissions on the following matters:

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

ACCOUNT 1521 – SPECIAL PURPOSE CHARGE ("SPC")

Background

As part of its original application, MPDC – Main provided the following table which indicates a residual credit balance of $8,128 for disposition, comprising of a principal as of December 31, 2011 and interest to April 30, 2012.

Company	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 to April 30, 2012	Forecasted April 30, 2012 Year End Principal Balance	Forecasted April 30, 2012 Carrying Charges Balance	Total Disposition (Principal & Carrying Charges)
(A)	(B)	(C)	(D)	(E) = (B) + (C)	(F) = (D)	(G)	(H)	(I) = (E) + (G)	(J) = (F) + (H)	(K)	(L) = (G)	(M) = (J) + (K)	(N) = (L) + (M)
MPDC - Main	$74,815.28	-$57,583.42	$187.28	$17,231.86	$187.28	-$25,493.33	-$13.90	-$8,261.47	$173.38	-$39.93	-$8,261.47	$133.45	-$8,128.02
MPDC - Dutton	$3,236.28	-$2,165.59	$9.14	$1,070.69	$9.14	-$1,238.15	$2.90	-$167.46	$12.04	-$0.81	-$167.46	$11.23	-$156.23
MPDC - Newbury	$1,535.44	-$953.04	$4.49	$582.40	$4.49	-$525.05	$3.18	$57.35	$7.67	$0.28	$57.35	$7.95	$65.30
TOTAL	$79,587.00	-$60,702.05	$200.91	$18,884.95	$200.91	-$27,256.53	-$7.82	-$8,371.58	$193.09	-$40.46	-$8,371.58	$152.63	-$8,218.95

Consistent with the disposition of its Group 1 Account balances, MPDC – Main proposed a one-year disposition period.

Submission

Board staff notes that the usual practice of 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 also 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. Board staff further submits that the one-year disposition period proposed by MPDC – Main is consistent with the EDDVAR Report and should be approved by the Board.

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.

MPDC – Main 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 credit of $245,886. Credit balances are amounts to be refunded to customers. This amount results in a total claim of $-0.0012 per kWh, which exceeds the preset disposition threshold. MPDC – Main proposed to dispose of this balance over a one-year period.

In response to Board staff interrogatory #2a, MPDC – Main confirmed that the preset disposition threshold calculation does not include the balance in the RSVA Power component of Account 1588. In response to Board staff interrogatory #2e, MPDC – Main recalculated the preset disposition threshold for all Group 1 Deferral and Variance account balances for its Main, Dutton and Newbury service areas which showed that in aggregate, the preset disposition threshold would be exceeded. This calculation also excluded the RSVA Power component of Account 1588.

In its Manager's Summary, MPDC – Main noted that it inadvertently did not follow the prescribed methodology for the RSVA Power component of Account 1588. MPDC – Main further noted that it has initiated an internal review to determine that the 2009 and 2010 balances attributable to the RSVA Power component of Account 1588 are in accordance with Article 220 of the Board's Accounting Procedures Handbook ("APH"). In order to allow sufficient time to complete the reconciliations and analysis associated with this review and to maintain the IRM application procedural timeframe, MPDC –

Main requested to dispose of the 2009 and 2010 RSVA Power balances as part of its 2013 IRM application.

In response to Board staff interrogatory #2d, MPDC – Main indicated that it does not have any issue with deferring the disposition of Account 1588 to its 2013 rate application.

Submission

Board staff notes that the preset disposition threshold methodology proposed by MPDC – Main is not consistent with the EDDVAR Report. In the EDDVAR Report, the Board established a preset disposition threshold of $0.001 per kWh (debit or credit) during the IRM plan term for all Group 1 accounts combined, including the RSVA Power component of Account 1588. Board staff however notes that the internal review undertaken by MPDC – Main is likely the reason why MPDC – Main did not include the amount in the RSVA Power component of Account 1588 in the calculation of the preset disposition threshold.

Board staff however makes the following observations regarding MPDC – Main's approach to the threshold calculation. Board staff notes that the threshold methodology proposed by MPDC – Main is not consistent with the spirit of the EDDVAR Report. In the EDDVAR Report, the Board established a preset disposition threshold of $0.001 per kWh during the IRM plan term for all Group 1 accounts combined. The Board also stated in the EDDVAR Report that during the IRM plan term: "this disposition threshold level should enhance the distributor's ability to manage its cash flow." Board staff is of the view that a distributor's cash flow is best reflected at the utility (overall) level and not within each individual rate zone. As such, Board staff is of the view that a single threshold test should be applied to Group 1 Account balances combined across all rate zones. This approach would be consistent with the treatment of the Global Adjustment sub-account, in that it is included as part of the total balance used in the threshold test calculation despite the fact that the account is disposed to only a sub-set of customers. Board staff further notes that when the Group 1 account balances for its Main, Dutton and Newbury service areas are aggregated, the disposition threshold is exceeded, in any event

With respect to Account 1588, Board staff considers that the internal review undertaken by MPDC – Main is important to ensure the correctness of the sub-accounts of Account 1588 since the sub-account balances are allocated to different customer groups based on cost causality. Board staff submits that the Board should defer the disposition of Account 1588 to MPDC – Main's 2013 rate application.

Board staff has reviewed MPDC – Main's Group 1 Deferral and Variance account balances and notes that the principal balances as of December 31, 2010 (excluding Account 1588) reconcile with the balances reported as part of the *Reporting and Record-keeping Requirements* and therefore should be disposed on a final basis. Board staff also submits that the one-year disposition period proposed by MPDC – Main is consistent with the EDDVAR Report and should be approved by the Board.

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.

MPDC – Main has sought to recover a total LRAM claim of $29,950, over a one year period. The lost revenues include the persisting impacts of 2006 to 2009 CDM programs between January 1, 2011 and April 30, 2012 and lost revenues from 2010 CDM programs from January 1, 2010 to April 30, 2012.

Submission

2010 lost revenues in 2010

Board staff notes that MPDC – Main's rates were last rebased in 2006.

Board staff supports the approval of the lost revenues in 2010 that were the result of 2010 CDM programs, as these lost revenues took place during IRM years and MPDC – Main did not previously recover these amounts.

Persisting impacts of 2006 to 2010 programs between January 1, 2011 and April 30, 2012

MPDC – Main has requested the recovery of an LRAM amount that includes the persisting impacts from 2006-2010 CDM programs from January 1, 2011 to April 30, 2012.

Board staff submits that it is premature to consider any lost revenues persisting in 2011 and 2012.

Board staff requests that MPDC – Main provide an updated LRAM amount that only includes lost revenues from 2010 CDM programs in 2010, including carrying charges, and the associated rate riders.

All of which is respectfully submitted