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**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 – Dutton  
2012 IRM3 Distribution Rate Application  
Board Staff Submission  
Board File No. EB-2011-0149**

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 – Dutton and to all other registered parties to this proceeding.

In addition please remind Middlesex Power Distribution Corporation – Dutton 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 – Dutton

EB-2011-0149

**February 17, 2012**

**Board Staff Submission  
Middlesex Power Distribution Corporation – Dutton  
2012 IRM3 Rate Application  
EB-2011-0149**

**Introduction**

Middlesex Power Distribution Corporation – Dutton (“MPDC – Dutton”) 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 – Dutton charges for electricity distribution, to be effective May 1, 2012. The Application is based on the Board’s guidelines for 3<sup>rd</sup> Generation Incentive Regulation Mechanism.

In a letter dated November 16, 2011, MPDC – Dutton 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 – Dutton to file their 2012 IRM application excluding the disposition of Account 1562. The Board further directed MPDC – Dutton 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 – Dutton.

Board staff makes submissions on the following matters:

- Account 1521 – Special Purpose Charge (“SPC”); and
- 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”)**

**Background**

As part of its original application, MPDC – Dutton provided the following table which

indicates a residual credit balance of \$156.23 for disposition, comprising of 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 – Dutton 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 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 Licenced 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. Board staff also submits that the one-year disposition period proposed by MPDC – Dutton 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 – Dutton 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 balance of \$33,088. Debit balances are amounts recoverable from customers. This amount results in a total claim of \$0.0040 per kWh, which exceeds the preset disposition threshold. MPDC – Dutton proposed to dispose of this balance over a one-year period.

In response to Board staff interrogatory #4a, MPDC – Dutton 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 #4e, MPDC – Dutton recalculated the preset disposition threshold for all Group 1 Deferral and Variance account balances for its Dutton, Main 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 – Dutton noted that it inadvertently did not follow the prescribed methodology for the RSVA Power component of Account 1588. MPDC – Dutton 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 – Dutton requested to dispose of the 2009 and 2010 RSVA Power balances as part of its 2013 IRM application.

In response to Board staff interrogatory #4d, MPDC – Dutton indicated that it does not have any issue with deferring the disposition of Account 1588 to its 2013 rate application.

In its Manager’s Summary, MPDC – Dutton noted that there are differences between the Group 1 amounts sought for disposition and the amounts reported as part of the Reporting and Record-keeping Requirements (“RRR”). MPDC – Dutton explained that the Group 1 account balances for the pre-acquisition period from January 1, 2005 to December 31, 2008 were not accurately reflected in the financial accounts by previous ownership and were not recorded by MPDC – Dutton until the Board approved the disposition of the Group 1 account balances in MPDC – Dutton’s 2011 IRM application (EB-2010-0274). MPDC – Dutton also noted that these balances were not included in the 2010 RRR data. MPDC – Dutton further noted that the Group 1 account activities from January 1, 2009 to April 30, 2009 were not included in the 2010 RRR data.

MPDC – Dutton provided the following table to illustrate the reconciliation of its Group 1 Deferral and Variance account balances to its RRR data (Table 1):

*Table 1*

Description	Legacy Balance	Approved Disposition EB-2010-0274	Variance Posted in 2011	Pre-Acquisition Activity	Total 2011 Adjustment
	Note 1	Note 2		Note 3	
1550 Low Voltage	\$142,251	\$146,348	\$4,097	\$15,953	\$20,050
1580 RSVA Wholesale	-\$24,644	\$5,890	\$30,534	-\$6,987	\$23,547
1584 RSVA Network	-\$15,751	-\$3,764	\$11,987	-\$9,254	\$2,733
1586 RSVA Connection	-\$12,447	-\$1,821	\$10,626	-\$7,184	\$3,442
1588 RSVA Global Adjust	-\$7,248	\$100,970	\$108,218	-\$29,930	\$78,288
1521: MEI Special Purpose Charge	\$0	\$0	\$0	\$0	\$0
Total	\$82,161	\$247,623	\$165,462	-\$37,402	\$128,060

In response to Board staff interrogatory #3, MPDC – Dutton noted that the amounts in the “Legacy Balance” column represent the balances at December 31, 2008, as recorded by the previous ownership of Dutton Hydro. The amounts in the “Variance Posted in 2011” column reflect the adjustments recorded by MPDC – Dutton in 2011 subsequent to the Board decision (EB-2010-0274). These adjustments were required to reconcile MPDC – Dutton’s ledger to the Group 1 Deferral and Variance account balances approved by the Board in EB-2010-0274. MPDC – Dutton also confirmed that the amounts in EB-2010-0274 were approved by the Board on a final basis. MPDC – Dutton also noted that the amounts in the “Variance Posted in 2011” reflect the correct

values. MPDC – Dutton also noted that the amounts requested for disposition in the current application do not include the values in the “Variance Posted in 2011”. Finally, MPDC – Dutton confirmed that it is not seeking to retroactively adjust previously Board approved Group 1 Deferral and Variance account balances.

MPDC – Dutton noted that the purpose of the table above is to illustrate only the reconciliation of its ledger to the previously reported RRR balances. MPDC – Dutton noted that it did not attempt to amend its 2010 RRR data because the adjustment was identified in the fourth quarter of 2011.

### **Submission**

Board staff notes that the preset disposition threshold methodology proposed by MPDC – Dutton 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 – Dutton is likely the reason why the utility did not include the amount in the RSVA Power component of Account 1588 in the calculation of the preset disposition threshold.

Board staff makes the following observations regarding MPDC – Dutton’s approach to the threshold calculation. The threshold methodology proposed by MPDC – Dutton is not consistent with the spirit of the EDDVAR Report in which 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 Dutton, Main 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 – Dutton 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 – Dutton's 2013 rate application.

Board staff has reviewed the reconciliations of the principal amounts as of December 31, 2010, included in this application, and the amounts reported as part of the RRR data. It is Board staff understanding that the "Variance Posted in 2011" are adjustments necessary to reconcile the ledger to the amounts approved for disposition on a final basis in the EB-2010-0274 proceeding, and have no bearings on the amounts sought for disposition in this proceeding. Board staff is satisfied with the explanations and reconciliations provided by MPDC – Dutton and submits that the Group 1 account balances (with the exception of Account 1588) as of December 31, 2010 including carrying charges as of April 30, 2012 should be disposed on a final basis.

Board staff also submits that the one-year disposition period proposed by MPDC – Dutton is consistent with the EDDVAR Report and should be approved by the Board.

All of which is respectfully submitted