

**Ontario Energy
Board**
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

**Commission de l'énergie
de l'Ontario**
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273



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 – Newbury
2012 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0150**

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

In addition please remind Middlesex Power Distribution Corporation – Newbury 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 –
Newbury**

EB-2011-0150

February 17, 2012

**Board Staff Submission
Middlesex Power Distribution Corporation – Newbury
2012 IRM3 Rate Application
EB-2011-0150**

Introduction

Middlesex Power Distribution Corporation – Newbury (“MPDC – Newbury”) 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 – Newbury 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 – Newbury 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 – Newbury to file their 2012 IRM application excluding the disposition of Account 1562. The Board further directed MPDC – Newbury to file a stand-alone application, by no later than April 1, 2012, for the disposition of Account 1562.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application model by MPDC – Newbury. 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, MPDC – Newbury confirmed that they were errors. Board staff will make the necessary corrections to MPDC – Newbury’s model at the time of the Board’s Decision and Order on this 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 MPDC – Newbury.

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 – Newbury provided the following table which indicates a residual debit balance of \$65.30 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 – Newbury 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 – Newbury 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 – Newbury 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 balance of \$24,823. Credit balances are amounts refundable to customers. This amount results in a total claim of \$-0.0068 per kWh, which exceeds the preset disposition threshold. MPDC – Newbury proposed to dispose of this balance over a one-year period.

In response to Board staff interrogatory #5a, MPDC – Newbury 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 #5e, MPDC – Newbury recalculated the preset disposition threshold for all Group 1 Deferral and Variance account balances for its Newbury, Main and Dutton 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 – Newbury noted that it inadvertently did not follow the prescribed methodology for the RSVA Power component of Account 1588. MPDC – Newbury 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 – Newbury requested to dispose of the 2009 and 2010 RSVA Power balances as part of its 2013 IRM application.

In response to Board staff interrogatory #5d, MPDC – Newbury 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 – Newbury 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 – Newbury 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 – Newbury until the Board approved the disposition of the Group 1 account balances in MPDC – Newbury's 2011 IRM application (EB-2010-0275). MPDC – Newbury also noted that these balances were not included in the 2010 RRR data. MPDC – Newbury 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 – Newbury 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-2010-0275	Variance Posted in 2011	Pre-Acquisition Activity	Total 2011 Adjustment
	Note 1	Note 2		Note 3	
1550 Low Voltage	\$0	-\$31,947	-\$31,947	\$1,400	-\$30,547
1580 RSVA Wholesale	\$0	-\$1,425	-\$1,425	-\$1,272	-\$2,698
1584 RSVA Network	\$0	\$5,512	\$5,512	-\$1,063	\$4,448
1586 RSVA Connection	\$0	\$29,019	\$29,019	-\$2,649	\$26,370
1588 RSVA Global Adjust	\$0	-\$42,382	-\$42,382	-\$4,478	-\$46,861
1521: MEI Special Purpose Charge	\$0	\$0	\$0	\$0	\$0
Total	\$0	-\$41,225	-\$41,225	-\$8,063	-\$49,288

In response to Board staff interrogatory #3 and #4, MPDC – Newbury confirmed that the amounts in the “Approved Disposition EB-2010-0275” column had the signs reversed.

Submission

Board staff notes that the preset disposition threshold methodology proposed by MPDC – Newbury 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 – Newbury 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 – Newbury’s approach to the threshold calculation. The threshold methodology proposed by MPDC – Newbury 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 Newbury, Main and Dutton 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 – Newbury 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 – Newbury'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. As in the case of Middlesex Power Distribution Corp. – Dutton service area (EB-2011-0149), Board staff believes the adjustments were required to reconcile MPDC – Newbury's ledger to the Group 1 Deferral and Variance account balances approved by the Board in EB-2010-0275 and have no bearings on the amounts sought for disposition in this proceeding. Board staff 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 – Newbury is consistent with the EDDVAR Report and should be approved by the Board.

All of which is respectfully submitted