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

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: EnWin Utilities Ltd.
2012 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0165

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 EnWin Utilities Ltd. and to all other registered parties to this proceeding.

In addition please remind EnWin Utilities Ltd. that its Reply Submission is due by March 2, 2012.

Yours truly,

Original Signed By

Stephen Vetsis
Analyst, Applications & Regulatory Audit

Encl.

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

EnWin Utilities Ltd.

EB-2011-0165

February 17, 2012

Board Staff Submission
EnWin Utilities Ltd.
2012 IRM3 Rate Application
EB-2011-0165

Introduction

EnWin Utilities Ltd. ("EnWin") filed an application (the "Application") with the Ontario Energy Board (the "Board") on November 25, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that EnWin charges for electricity distribution, to be effective May 1, 2012. The Application is based on the 2011 3rd Generation Incentive Regulation Mechanism.

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 EnWin.

EnWin completed the Tax-Savings Workform with the correct rates which reflect the Revenue Requirement Work Form from the Board's cost of service decision in EB-2008-0227. Board staff has no concerns with the Tax-Savings Workform as filed.

Board staff has no concerns with the data supporting the RTSR Workform proposed by EnWin. Pursuant to Guideline G-2008-0001, updated on June 22, 2011, Board staff notes that the Board will update the applicable data at the time of this Decision based on the updated Uniform Transmission Rates.

EnWin's 2010 actual year-end balance for Group 1 accounts with interest projected to April 30, 2012 is a credit balance of $4,161,019. This includes a credit balance of $11,069,601 in the global adjustment sub-account of account 1588. The total Group 1 Deferral and Variance account ("DVA") amount results in a total credit claim of $0.00161 per kWh, which exceeds the preset disposition threshold. EnWin proposed to dispose of Group 1 account balances at this time by means of a variable rate rider to be in effect for one year. DVA amounts were assigned to each class on the basis of billed kWh. Board staff has reviewed EnWin's Group 1 DVA balances and notes that the balances as of December 31, 2010 reconcile with the balances reported as part of the *Reporting and Record-keeping Requirements*. As the preset disposition threshold of $0.001 per kWh was exceeded, Board staff takes no issue with EnWin's proposal to refund the amounts to customers through a variable rate rider. Certain details regarding EnWin's method of allocating the Group 1 DVA amounts as well as the period of disposition will be discussed in the sections that follow.

Following publication of the Notice of Application, the Board received 9 letters of comment. Board staff requests that EnWin confirm whether a reply was sent from the applicant to the authors of the letters. If so, Board staff requests that EnWin file those replies with the Board. Board staff reminds EnWin that it should ensure that the author's contact information except for the name is redacted. If EnWin has not replied to the letters of comment, Board staff suggests EnWin explain why a response was not sent and confirm if EnWin intends to respond.

Board staff makes detailed submissions on the following matters:

- Allocation of Deferral and Variance Account Balances for Wholesale Market Participants;
- Disposition of Deferral and Variance Account Balances – Rate Mitigation Strategies;
- Disposition of Account 1521 – SPC Variance; and
- Lost Revenue Adjustment Mechanism ("LRAM") Claim.

Allocation of Deferral and Variance Account Balances for Wholesale Market Participants

Background

EnWin provided an identical set of billing determinants in its 2012 IRM Rate Generator Model and its 2012 RTSR Adjustment Workform that formed the basis of the allocation of balances in the continuity schedule for Group 1 DVAs to each class for recovery. When asked, in Board staff interrogatory #3, to reconcile the billing determinants for the Large Use classes with EnWin's RRR 2.1.5 filing, EnWin noted that its RRR 2.1.5 does not include data for Wholesale Market Participants ("WMPs"). EnWin provided the following table summarizing the billing determinants for its Large Use classes, including the billing determinants for customers deemed to be WMPs.

Table 1 - Large Use class billing determinants summary

2012 IRM Retail Transmission Service Rates ("RTSR") Workform	Metered kWh	Metered kW
Total Large Use - Regular	**295,089,951**	**579,240**
Large Use - Regular, Non-Market Participants	188,689,443	384,123
Large Use - Regular, Market Participants	106,400,508	195,117
Total Large Use - 3TS	**349,426,416**	**698,063**
Large Use - 3TS, Non-Market Participants	257,570,182	496,981
Large Use - 3TS, Market Participants	91,856,234	201,082
Large Use - Ford Annex, Market Participant	**54,756,020**	**99,529**
Total Large Use Non-Market Participants	446,259,625	881,104

EnWin allocated the balances in all Group 1 accounts to each class based on the total billed kWh for each class, including the billed kWh for WMPs.

Submission

For embedded WMPs, a distributor typically invoices the customer for distribution charges and retail transmission network and connection charges. A WMP settles directly with the IESO for the commodity and wholesale market service charges.

In the Decision and Order for Bluewater's 2011 IRM application (EB-2010-0065), the Board determined that balances in account 1580 – RSVA Wholesale Market Service and account 1588 – RSVA Power (Sub-account for Global Adjustment) should not be allocated using billing determinants of WMPs since they settle directly with the IESO. With respect to Account 1588 – RSVA Power (excluding the Global Adjustment), the Board was persuaded in that case that the WMP did not contribute in any material way to the balances in this account and therefore found that the WMP should not participate in its disposition.

Given the significant consumption by EnWin's WMPs (for example, WMPs account for approximately 1/3 of the total consumption of EnWin's Large Use class), Board staff submits that EnWin should revise its allocation of the balances in accounts 1580 and 1588 to exclude billing determinants of WMPs. Board staff suggests that EnWin provide updated allocations of its Group 1 DVA balances for each class, taking into account the Board's findings in Bluewater's 2011 IRM application, as part of its reply submissions.

EnWin should calculate two sets of rate riders, distinguishing between the disposition of accounts 1584 and 1586 to all classes based on total kWhs from all customers (with the resulting rate riders charged to all customers), and the disposition of accounts 1580 and 1588 (including the GA sub-account) to all classes based on total kWhs from non-WMPs only (with the resulting rate riders charged to only non-WMP customers). Board staff submits that per the Board's established policy, the GA sub-account balance should be allocated to each class based on the billed non-RPP kWh for each class, excluding WMPs, and presented as a separate rate rider to be recovered from non-RPP customers, excluding WMPs.

Board staff notes that the rate riders for recovery of accounts 1584 and 1586 should also include balances from accounts 1521 and 1562, subject to the Board's findings on the recovery period for these accounts.

Disposition of Deferral and Variance Account Balances – Rate Mitigation Strategies

Background

On November 25, EnWin filed its application which included a request to dispose of a $5,227,019 debit balance in account 1562. The balance, including carrying charges calculated to April 30, 2012, was approved by the Board in Decision and Order for the combined proceeding on Deferred Payments in Lieu of Taxes ("Deferred PILs"), EB-2008-0381.

On December 5, 2011, EnWin filed an amendment stating:

> EnWin is proposing to not dispose of Account 1562 Deferred PILs through this proceeding, but rather to defer consideration of 1562 until EnWin's 2013 Cost of Service Rate Application. The magnitude of the impact of disposition when combined with other 2012 rate increase drivers warrants its deferral to the 2013 Cost of Service proceeding.

On December 19, 2011, the Board issued a Decision and Order indicating that it would hear EnWin's originally filed application in this proceeding and stated that:

> The Board notes that EnWin is not required by the Combined PILs Decision to dispose of account 1562 over a one-year period and expects that EnWin, intervenors and Board staff will investigate rate mitigation options as part of this proceeding.

Board staff requested, in Board staff interrogatory #2(a), that EnWin provide the estimated bill impacts for the residential and GS < 50 kW classes where all DVA accounts (including accounts 1521 and 1562) are disposed over 2, 3 and 4 year periods. EnWin's reply is summarized in the table below.

Table 2 - Bill impact summary. All DVAs disposed over same period.

	Application		2 year		3 year		4 year	
	$	**%**	**$**	**%**	**$**	**%**	**$**	**%**
Residential (800 kWh)								
Distribution Impact	$ 6.11	22.20%	$ 3.48	12.65%	$ 2.61	9.48%	$ 2.18	7.92%
Total Bill Impact (less OCEB)	$ 6.47	5.95%	$ 3.79	3.48%	$ 2.91	2.68%	$ 2.47	2.27%
GS < 50 kW (2000 kWh)								
Distribution Impact	$ 13.57	23.21%	$ 7.86	13.45%	$ 5.98	10.23%	$ 5.03	8.60%
Total Bill Impact (less OCEB)	$ 14.44	5.36%	$ 8.63	3.21%	$ 6.71	2.49%	$ 5.75	2.14%

Additionally, Board staff requested that EnWin provide the estimated bill impacts for the residential and GS < 50 kW classes where all Group 1 DVA accounts (including account 1521) are disposed over one year and the balance in account 1562 is disposed over 2, 3 and 4 year periods. EnWin's reply is summarized in the table below.

Table 3 - Bill impacts summary. Group 1 DVAs and account 1521 disposed over 1 year. Account 1562 to be disposed over 2, 3 and 4 years.

	Application		2 year		3 year		4 year	
	$	**%**	**$**	**%**	**$**	**%**	**$**	**%**
Residential (800 kWh)								
Distribution Impact	$ 6.11	22.20%	$ 4.56	16.57%	$ 4.08	14.83%	$ 3.84	13.95%
Total Bill Impact (less OCEB)	$ 6.47	5.95%	$ 4.89	4.50%	$ 4.40	4.04%	$ 4.16	3.82%
GS < 50 kW (2000 kWh)								
Distribution Impact	$ 13.57	23.21%	$ 10.60	18.13%	$ 9.60	16.42%	$ 9.00	15.40%
Total Bill Impact (less OCEB)	$ 14.44	5.36%	$ 11.41	4.24%	$ 10.40	3.86%	$ 9.79	3.64%

When asked, in Board staff interrogatory #2(b), if EnWin had a preferred method of rate mitigation, EnWin proposed to:

- Dispose of Group 1 DVA balances (including account 1521) over one year;
- Dispose of the balance in account 1562 over 3 years; and
- Recover the LRAM amount over 3 years.

The resulting bill impacts of EnWin's proposal for the residential and GS < 50 kW classes are summarized in the table below.

Table 4 - Bill impact summary for EnWin's proposed method of rate mitigation

	Application		EnWin's Proposal	
	$	**%**	**$**	**%**
Residential (800 kWh)				
Distribution Impact	$ 6.11	22.20%	$ 2.80	10.17%
Total Bill Impact (less OCEB)	$ 6.47	5.95%	$ 3.10	2.85%
GS < 50 kW (2000 kWh)				
Distribution Impact	$ 13.57	23.21%	$ 7.40	12.66%
Total Bill Impact (less OCEB)	$ 14.44	5.36%	$ 8.16	3.03%

In response to Board staff interrogatory #2(d), EnWin confirmed that it intended to file a stand-alone smart meter recovery application prior to its next annual rate application but did not have any estimated bill impacts for that application at this time.

Submission

Board staff is of the view that the Board should strike a balance between reducing intergenerational inequity and mitigating rate volatility. Board staff is of the view that EnWin's preferred approach does achieve the result of mitigating the bill impacts on customers. Board staff notes the unique nature and material balance of account 1562 and therefore agrees that, despite concerns of increasing any issues related to intergeneration inequity, a longer disposition period is warranted. Further, Board staff submits that EnWin's original proposal for a one-year recovery period for its LRAM claim is appropriate. Further details on the quantum of the LRAM claim are discussed below. As a result, Board staff proposes recovery of Group 1 DVA balances (including account 1521) and any approved LRAM claim over a one year period, and recovery of account 1562 over 3 years.

The resulting balance of all DVA accounts, including account 1521 and 1562 but excluding the Global Adjustment sub-account of account 1588, to be recovered is a debit of $12,201,428. The balance in the Global Adjustment sub-account of account 1588 is a credit of $11,069,601 to be refunded to non-RPP customers. This would result in an estimated total bill increase per month of 4.04% for a residential customer consuming 800kWh and a total bill increase of 3.86% for a GS < 50 kW customer consuming 2000 kWh. Board staff notes that the bill impacts, stated above, apply to RPP customers only.

Board staff believes that this approach strikes the appropriate balance between mitigating rate volatility and reducing intergenerational inequity, in light of EnWin's stated plans to file a stand-alone application for smart meter cost recovery.

<u>Disposition of Account 1521 – SPC Variance</u>

Background

EnWin originally requested the disposition of a debit balance of $65,827 in account 1521 with carrying charges calculated to April 30, 2012. In response to Board staff interrogatory # 1, EnWin confirmed that the balance requested for disposition included unaudited 2011 recoveries and carrying charges calculated to April 30, 2012.

EnWin proposed to recover the balance through the DVA rate riders calculated for the disposition of Group 1 DVAs, discussed above. Amounts were allocated to each class based on billed kWh to be refunded over a period of one year.

Submission

Board staff notes that the usual practice by the Board is to dispose of audited deferral and variance account balances. The balances in account 1521 in the application provided by EnWin are not audited. 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 $65,827 debit balance in account 1521. Board staff notes that this balance includes the correct calculation of forecasted carrying charges extending to April 30, 2012. Board staff takes no issue with EnWin's proposal to refund the balance to customers through the DVA rate riders over the period approved by the Board for the Group 1 accounts, nor with EnWin's method of allocating the balance to each class.

Lost Revenue Adjustment Mechanism ("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 noted that distributors should use the most current input assumptions available at the time of the third party review when calculating a LRAM amount.

EnWin has requested to recover a total LRAM claim of $2,227,586.68 over a one-year period. The LRAM claim is for the effect of CDM programs implemented from 2006-2010 in the years 2006-2011.

Submission

Persisting impacts of 2006-2009 programs and 2009 lost revenues

EnWin has requested the recovery of an LRAM amount that includes lost revenues in 2009 for 2009 CDM programs and the persisting lost revenues for 2006-2009 CDM programs in 2010 and 2011.

Board staff notes that EnWin's rates were last rebased in 2009. In response to VECC interrogatory #1(c), EnWin stated:

> In the OEB-approved 2009 COS Settlement Agreement, the Parties agreed to a load forecast which was deemed to include the impact of conservation and demand management.

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 time[1].

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.

Given that EnWin's 2009 load forecast was deemed to include the impacts of CDM programs, Board staff does not support the recovery of the requested lost revenues in 2009 for 2009 CDM programs, or the persisting lost revenues from 2006-2009 CDM programs in 2010 or 2011 as these amounts have been built into EnWin's last approved load forecast.

2006, 2007, 2008 and 2010 programs

Board staff notes that EnWin has not collected the lost revenues associated with CDM programs delivered in 2006, 2007, 2008, and 2010. Staff notes that except for 2006, EnWin was under IRM for these years. In 2006, EnWin rebased on a historical test year basis and there was no opportunity for EnWin to account for CDM activity in its rates. Board staff supports the approval of the 2006, 2007, 2008, and 2010 lost revenues, including the persisting lost revenues from 2006 programs in 2007, and the persisting

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

lost revenues from 2006 and 2007 programs in 2008, as these lost revenues took place during years when EnWin did not have an opportunity to recover these amounts. Board staff notes that this is consistent with what the Board noted in its 2012 IRM decisions on applications from Horizon (EB-2011-0172), Hydro One Brampton (EB-2011-0174), and Whitby Hydro (EB-2011-0206).

Board staff requests that EnWin 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 subsequent rate riders. This will allow for the issuance of the final rate order on a timelier basis if the Board is inclined to approve only the lost revenues associated with the 2006, 2007, 2008, and 2010 programs.

All of which is respectfully submitted