ORILLIAPOWER
Energizing Our Community

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February 21, 2012

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Re: Orillia Power Distribution Corporation, Licence ED-2002-0530
2012 IRM3 Electricity Distribution Rate Application
Final Reply Submission EB-2011-0191

Dear Ms Walli:

Please find attached Orillia Power Distribution Corporation's Final Reply Submission to its 2012 IRM3 Electricity Distribution Rate Application. Two hard copies will be sent by courier.

Should you require further information or clarification please contact me at (705)326-2495 ext. 222 or phurley@orilliapower.ca.

Yours truly,

Patrick Hurley, B Math., CMA
Treasurer
Orillia Power Distribution Corporation

cc. Keith McAllister, President & CEO

Introduction

Orillia Power Distribution Corporation ("Orillia") filed an application with the Ontario Energy Board ("the Board") on October 30, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Orillia charges for electricity distribution, to be effective May 1, 2012. The Application is based on the 3rd Generation Incentive Regulation Mechanism.

Vulnerable Energy Consumers Coalition ("VECC") requested, and was granted intervenor status.

VECC and Board staff submitted interrogatories in respect of the Application, and full responses to the interrogatories were filed by Orillia on January 27, 2012.

On February 10, 2012, Board staff and VECC filed final submissions.

Orillia hereby submits its final response on the following matters:

- Shared tax savings
- Disposition of group 1 deferral and variance account balances
- Disposition of the global adjustment sub-account of account 1588
- Disposition of account 1521 – Special Purpose Charge Variance
- Retail Transmission Service Rate – change in billing determinants
- Lost Revenue Adjustment Mechanism ("LRAM") claim
- Disposition of account 1562 – Payments in Lieu of Taxes (PILs)

Shared Tax Savings

Board Staff Submission

Orillia provided an updated calculation of the shared tax amount based on 2010 taxable income of $1,190,200 and a combined tax rate of 28.85%. This resulted in a 2012 corporate tax rate of 23.41% and a 2012 shared tax amount of $32,382 to be refunded to customers.

Board staff notes that the values used by Orillia in both of their shared tax savings amount calculations are inconsistent with the Board approved values present in the Revenue Requirement Workform ("RRWF") submitted with the draft rate order, dated March 22, 2010, in Orillia's last cost of service proceeding. Orillia's RRWF showed a total 2010 tax amount of $349,400 ($6,000 in capital taxes and $343,400 in income taxes), a corporate tax rate of 28.85% and regulatory taxable income of $846,747.

Board staff populated the Tax-Savings Workform using the 2010 values from the RRWF and calculated a total tax related amount of $242,501 for 2012. This results in a credit variance of $106,899 ($242,501 minus $349,400), of which 50% ($53,450) should be refunded to rate payers. Board staff submits that Orillia should refund the $53,450 amount in shared tax savings to rate payers.

In its reply submission, Orillia should confirm that the data identified by Board staff above and the updated calculations are correct. If Orillia is of the view that its updated proposal provided in response to Board staff interrogatory #3 is incorrect, Orillia should explain why.

Orillia Submission

Orillia is able to duplicate (see Table 1 below), Board staff's calculations using the tax savings work form (the "TSWF"). However, in our view, **Orillia cannot confirm as requested in the Board Staff submission that the tax sharing calculations are "correct".**

TABLE 1 - Excerpt from TSWF

2. Tax Related Amounts Forecast from Income Tax Rate Changes	**2010**	**2012**
Regulatory Taxable Income	$ 846,800	$ 846,800
Corporate Tax Rate	28.85%	22.26%
Tax Impact	$ 244,321	$ 188,527
Grossed-up Tax Amount	**$ 343,400**	**$ 242,520**
Tax Related Amounts Forecast from Capital Tax Rate Changes	$ -	$ -
Tax Related Amounts Forecast from Income Tax Rate Changes	$ 343,400	$ 242,520
Total Tax Related Amounts	**$ 343,400**	**$ 242,520**
Incremental Tax Savings		**-$ 100,880**
Sharing of Tax Savings (50%)		**-$ 50,440**

The TSWF calculates income taxes for 2012 based on the Board's "regulatory taxable income" of $846,800 as per our 2010 Board approved rate order. This calculation reveals an effective tax rate of 22.26% and taxes of $188,530.

It indicates that the share of tax savings before capital taxes should be $50,450 [($343,400 - $242,500) x 50%]. When 50% of the capital tax savings of $6,000 are added, the amount of shared tax savings totals $53,450.

Orillia does not agree however that this is the correct amount that should be removed from rates in shared tax savings.

Orillia believes that the TSWF's method of calculating income taxes is based on methodology that, in our opinion, would never be considered adequate by anyone attempting to comply with the Income Tax Act for computation of income tax liability. It violates a very basic concept of determining income taxes by starting with net income instead of taxable income.

We believe that the methodology in the TSWF understates the amount of actual income taxes that would be paid on taxable income through the use of an understated effective tax rate. The use of a lower effective tax rate understates the amount required to be recovered from customers through rates to pay for taxes. A more realistic effective tax rate is calculated by dividing income taxes by taxable income and not by dividing income taxes by net income plus taxable adjustments.

Orillia is required to accurately determine revenues and operating costs for the purposes of rate applications. While we, of course, agree with this approach, we are confused as to why it is considered sufficient to use the TSWF as it is designed which promotes a methodology that has the effect of understating the true amount of income taxes that will be paid as a result of earnings from those rate applications.

In our opinion, the Board should require the TSWF to be reviewed by a professional accounting firm specializing in corporate taxes in order to provide comfort to both the Board and LDCs that the amounts being included in IRM applications to pay for income taxes are reasonable and fair. Utilizing the TSWF method as it exists means that LDCs are not allowed to earn a rate of return deemed by the OEB as a fair return on capital.

Schedule A below outlines Orillia's income ($343,400) and capital tax ($6,000) liabilities that would have resulted from our 2010 Board approved rate order. As can be seen this calculation is a top down calculation beginning with taxable income. A review of a federal corporate tax return would show that the approach used by Revenue Canada is to calculate taxes based on taxable income which is a before tax figure, not an after tax figure.

Combined corporate income and capital taxes - 2010 **SCHEDULE A**
Top down approach working from taxable income

Taxable Income as per Approved Rate Order								**$ 1,190,200**
Provincial (Ontario) Corporate Taxes:								
1) January 1, to June 30, 2010:								
General Rate	14.00%	x	$ 1,190,200	181	/	365	$	82,629
Small Business Deduction credit	8.50%	x	$ 500,000	181	/	365		-21,075
Surtax	4.25%		$ 690,200	181	/	365		14,546
Subtotal								76,100
2) July 1, 2010 to December 31, 2010:								
General Rate	12.00%	x	$ 1,190,200	184	/	365		71,999
Small Business Deduction credit	7.50%	x	$ 500,000	184	/	365		-18,904
Surtax	0.00%							-
Subtotal								53,095
Annualized provincial tax								129,195
Federal Corporate Taxes:								
General Rate	18.00%	x	$ 1,190,200	365	/	365		214,236
Small Business Deduction (Federal SBC ground to zero)	7.00%	x	-	365	/	365		-
Annualized federal tax								214,236
Combined provincial and federal tax							$	343,431
Combined provincial and federal tax rate								**28.85%**
Combined provincial and federal tax (rounded to nearest $100)							**$**	**343,400**
Capital taxes per rate order							$	6,000
Total income and capital taxes in Board approved 2010 rate order							**$**	**349,400**

Schedule B outlines a reconciliation to taxes using a bottom up approach from net income. An effective tax rate is applied to net income (after taxes) plus net tax adjustments to accounting income in order to calculate PILs before being grossed up by 1 - the effective tax rate. The taxes determined using the bottom up approach reconcile to the taxes calculated using the top down approach only because the true effective tax rate was used.

Proof of income tax calculation - 2010 **SCHEDULE B**
Bottom Up approach working from net earnings after taxes

			2010
Earnings before income taxes		EBIT	1,163,200
Income taxes		IT	343,400
Utility Net Earnings - 2010 Board approved rate order	EBIT - IT =	NI	819,800
Tax Adjustments to Accounting Income		TA	27,000
Taxable Income prior to adjusting revenue for PILs	NI + TA =	TI	846,800
Effective Tax Rate as calculated in schedule A		ETR %	28.85%
Total PILs before gross up	TI x ETR% =	PbGU	244,300
Grossed up PILs - 2010 RATE ORDER		**PBGU / (1 - ETR%)**	**343,400**

Orillia has determined what it believes to be a fair calculation of tax sharing in Schedule C. As indicated by Board staff, in our recent submission, Orillia should have shown a total tax amount for the Board approved 2010 rates of $349,400 not $343,400. Orillia inadvertently omitted 2010 capital taxes of $6,000 in an earlier calculation of shared tax savings. As capital taxes are NIL for 2012, the entire $6,000 is eligible for the shared tax savings calculation. The issue Orillia has with TSWF calculations is solely related to income tax and not capital taxes.

The calculation in schedule C includes all impacts of capital taxes in the sharing mechanism. For tax purposes, the amount of capital taxes reduces taxable income. The fact that Orillia will not be paying $6,000 in capital taxes means that taxable income is now $6,000 higher than the Board approved 2010 taxable income of $1,190,200. In order to calculate income taxes in 2012, a taxable income of $1,196,200 has been used.

Under this method and as shown in Schedule C, Orillia's tax sharing obligation is $34,600. Orillia requests that this amount be used for determining 2012 rates.

Combined corporate income and capital taxes - 2012 **SCHEDULE C**
Top down approach working from taxable income

Taxable Income as per Approved Rate Order plus $6,000 avoided capital taxes								**$ 1,196,200**
Provincial (Ontario) Corporate Taxes:								
1) January 1, to June 30, 2012:								
General Rate	11.50%	x	$ 1,196,200	182	/	366	$	68,406
Small Business Deduction credit	7.00%	x	$ 500,000	182	/	366		-17,404
Surtax	0.00%		$ 696,200	182	/	366		-
Subtotal								51,001
2) July 1, 2010 to December 31, 2012:								
General Rate	11.00%	x	$ 1,196,200	184	/	366		66,151
Small Business Deduction credit	6.50%	x	$ 500,000	184	/	366		-16,339
Surtax	0.00%							-
Subtotal								49,812
Annualized provincial tax								100,813
Federal Corporate Taxes:								
General Rate	15.00%	x	$ 1,196,200	366	/	366		179,430
Small Business Deduction	7.00%	x	-	366	/	366		-
(Federal SBC ground to zero)								
Annualized federal tax								179,430
Combined provincial and federal tax							$	280,243
Combined provincial and federal tax rate								**23.43%**
Combined provincial and federal tax (rounded to nearest $100)							**$**	**280,200**
Capital taxes 2012							$	-
Total income and capital taxes 2012							**$**	**280,200**
Total income and capital taxes per SCHEDULE A							**$**	**349,400**
Total income and capital taxes per SCHEDULE C							**$**	**280,200**
Difference between Board Approved 2010 and 2012							**$**	**69,200**
50 / 50 Tax sharing							**$**	**34,600**

Schedule D repeats the proof of income tax calculation under a bottom up approach, again using the proper effective tax rate. Since taxes are now reduced from 2010, net earnings will be higher in 2012 than 2010 using the same Board approved revenues and expenses as 2010 (except that capital tax is NIL instead of $6,000). This is reflected in schedule D. Earnings before income taxes as per Board approved rate order in 2010 has been adjusted upwards by capital taxes avoided and downwards by the 2012 income taxes as determined in schedule C.

Proof of income tax calculation - 2012 **SCHEDULE D**
Bottom Up approach working from net earnings after taxes

			2012
Earnings before income taxes as per Board approved rate order 2010		EBIT	1,163,200
Capital taxes avoided in 2012 but paid in 2010		CT	6,000
Revised earnings before income taxes for 2012	EBIT + CT =	REBIT	1,169,200
Income taxes as calculated in Schedule C		IT	280,200
Revised Net Earnings - 2012	REBIT - IT =	RNI	889,000
Tax Adjustments to Accounting Income		TA	27,000
Taxable Income prior to adjusting revenue for PILs	RNI + TA =	TI	916,000
Effective Tax Rate as calculated in schedule C		ETR %	23.43%
Total PILs before gross up	TI x ETR% =	PbGU	214,600
Grossed up PILs - 2012 IRM		**PBGU / (1 - ETR%)**	**280,200**

The accuracy of the tax calculation method and rates used in Schedule C can be verified since we are able to duplicate the figures provided by the TSWF outlined in Table 1 when the incorrect starting point (net income plus taxable adjustments) is used. Using the same tax rates and method as used in Schedule C, Schedule E determines the same effective tax rate and taxes payable as in Table 1 and Schedule F performs the bottom up reconciliation.

Orillia wishes to reiterate that the amounts determined in Schedule C, with total tax savings to customers of $34,600, are the proper amounts to be used for tax sharing. When Orillia pays actual income taxes, the calculation will be based on the method in Schedule C and not the one outlined in Schedule E.

Calculation of income taxes using inputs required by Tax Model **SCHEDULE E**
Board Staff - Tax Model Approach begining with net income plus tax adjustments

Net income plus taxable adjustments per 2010 Board Approved Rate Order								$	**846,800**
Provincial (Ontario) Corporate Taxes:									
1) January 1, to June 30, 2012:									
General Rate	11.50%	x	$	846,800	182	/	366	$	48,425
Small Business Deduction credit	7.00%	x	$	500,000	182	/	366		-17,404
Surtax	0.00%		$	346,800	182	/	366		-
Subtotal									31,021
2) July 1, 2010 to December 31, 2012:									
General Rate	11.00%	x	$	846,800	184	/	366		46,829
Small Business Deduction credit	6.50%	x	$	500,000	184	/	366		-16,339
Surtax	0.00%								-
Subtotal									30,490
Annualized provincial tax									61,510
Federal Corporate Taxes:									
General Rate	15.00%	x	$	846,800	366	/	366		127,020
Small Business Deduction	7.00%	x		-	366	/	366		-
(Federal SBC ground to zero)									
Annualized federal tax									127,020
Combined provincial and federal tax								$	188,530
Combined provincial and federal tax rate									**22.26%**

Proof of income tax calculation - 2012 **SCHEDULE F**
Bottom Up approach working from net earnings after taxes

			2012
Utility Net Earnings - 2010 Board approved rate order	EBIT - IT =	NI	819,800
Tax Adjustments to Accounting Income		TA	27,000
Taxable Income prior to adjusting revenue for PILs	NI + TA =	TI	846,800
Effective Tax Rate as calculated in schedule A		ETR %	22.26%
Total PILs before gross up	TI x ETR% =	PbGU	188,500
Grossed up PILs - 2012 IRM		**PBGU / (1 - ETR%)**	**242,500**

<u>Disposition of Group 1 Deferral and Variance Account Balances</u>

Board Staff Submission

Board staff notes that the threshold methodology proposed by Orillia is not consistent with 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, including the Global Adjustment sub-account of account 1588. Board staff is of the view that a single threshold test should be applied to the total DVA balances, including the Global Adjustment sub-account of account 1588, regardless of the proposed method of disposition for each account.

Board staff notes that when the balance in the Global Adjustment sub-account of account 1588 is combined with the total Group 1 DVA balances, the resulting total credit claim is $ 0.002167 per kWh. This amount is still above the preset disposition threshold set by the Board in the EDDVAR report. As such, Board staff has no issue with Orillia's proposal to dispose of its DVA balances, as of December 31, 2010, at this time.

Orillia Submission

Orillia has no issue with Board staff's submission on this matter.

<u>Disposition of the Global Adjustment (GA) Sub-Account of Account 1588</u>

Board Staff Submission

Board staff notes that the prevalent practice amongst distributors is to dispose of the GA sub-account by means of a separate rate rider applicable to non-RPP customers that is included in the delivery component of the bill. Decisions on most 2011 IRM Applications directed the GA Sub-Account rate rider to be included in the delivery component of the bill.

As Orillia's billing system is capable of including the GA rate rider on the delivery line of a non-RPP customer's bill, there is no compelling reason why the Board should treat Orillia differently from other distributors. Board staff submits that Orillia should adhere to the practice approved by the Board for other distributors and include the GA rate rider as part of the delivery line of non-RPP customers' bills.

Board staff is of the view that Orillia's proposal to use kWh as the billing determinant for the GA sub-account of account 1588 is inconsistent with the Board's policy, as defined by the EDDVAR report. By including the GA sub-account of account 1588 as a Group 1 account, Board staff is of the view that the Board intended for all Group 1 DVAs to be treated similarly in all aspects, including the method of disposition. While Board staff does not entirely disagree with Orillia's notion that a good rate setting principle is to charge a customer in a manner similar to which the charges were incurred, Board staff does not believe that the additional complexity involved with having different billing determinants for charges within a rate class is warranted.

Orillia Submission

Orillia proposes to dispose of a $576,746 debit balance in the GA sub-account using a variable rate rider of $0.0018 per kWh that will be in effect for two years and that is uniform to all applicable classes. Orillia believes that the proposed treatment of the GA sub-account balance is more transparent, and particularly, results in a more equitable disposition of the GA balance than the methodology provided in the 2012 IRM Generator Model.

The potential for inequity of the alternative methods was demonstrated by Orillia in Table 4 on page 11 of the Manager's Summary. Board staff focused on the materiality of the overall amount collected for the sample of ten customers over one year of the two year period proposed for the rate rider. This represents approximately 10% of Orillia's general service 50 kW to 4,999 kW customers either paying the market price or a retailer contract price and accordingly, subject to the GA as a separate line on their bill. Orillia intended to show that demand (KW) and consumption (kWh) are not naturally correlated, leading to some customers subsidizing other customers for an amount over two years **that can be material to the individual customer.**

In addition, Orillia submits that the total cost of the electricity for its general service 50 kW to 4,999 kW customers and retailer-enrolled customers is three-fold: (1) the market price (weighted) or the retailer contract amount, (2) the GA amount, and (3) the GA rate rider. Orillia submits that the bill presentation of the GA rate rider as a separate line item with the GA amount provides complete transparency as to the total cost of electricity commodity for the customer. Also, this is consistent with the presentation of electricity commodity charges for RPP customers, as described in the next paragraph.

RPP customers pay a global adjustment through the regulated price set by the Board every six months.

"Prices are reviewed and may change every six months based on an updated Board forecast and any accumulated differences between the amount that consumers paid for electricity and the amount paid to generators in the previous period."

Regulated prices are based on the true cost of power using historic and forecast data, plus a true up of the global adjustment for the same period:

RPP Price Report – Fall 2011, dated October 17, 2011:

RPP Supply Cost Summary
for the period from November 1, 2011 through October 31, 2012

Current Forecast Wholesale Electricity Price = $31.83
Load-Weighted Price for RPP Consumers ($ / MWh) = $34.62
Impact of the Global Adjustment ($ / MWh) = + $40.08
Adjustment to Address Bias Towards Unfavourable Variance ($ / MWh) = + $1.00
Adjustment to Clear Existing Variance ($ / MWh) = + ($0.06)
Average Supply Cost for RPP Consumers ($ / MWh) = $75.65

As a result, RPP customers see 100% of the cost of electricity commodity on the electricity line of their bill. Non-RPP customers should be given the same transparency for their electricity commodity costs on their bills.

The GA sub-account has historically carried a significant balance and continues to grow strictly due to the difference between the GA first estimate rate billed to customers and the GA actual rate billed to the distributor. The following are the estimated and actual GA rates for Class B customers determined by the IESO for November 2011:

1st Estimate ($/MWh)	2nd Estimate ($)	2nd Estimate ($/MWh)	Actual ($)	Actual Rate ($/MWh)
37.85	456452011	44.71	451020116	43.46

Orillia believes that the Board staff's submission to include the GA rate rider for general service 50 kW to 4,999 kW customers and retailer-enrolled customers on the delivery line of the customer bill is inconsistent with the Board's rate setting policy for RPP customers that is inclusive of: (1) the forecast market price, (2) the GA amount, and (3) variance balances.

It is also unclear whether Board staff is proposing the GA rate rider to be included on the delivery line of the bill using kW or kWh. Orillia's response to Board staff IR #2 (a) stated it is possible to include the GA rate rider in the delivery line of its bills. Orillia's preference is to bill on kWh regardless of where the charge is included on the bill.

Board staff also submits that Orillia should adhere to the practice approved by the Board for other distributors and include the GA rate rider as part of the delivery line of non-RPP customers' bills. Orillia asks the Board to keep in mind that this practice is only recently the result of 2011 rate decisions and deserves to be reconsidered on the basis of new and relevant information brought to the Board's attention.

For the above reasons, Orillia requests that the Board decide in favor of presenting the GA rate rider as a separate line item based on kWh and presented on the electricity line of the bill for all of its general service 50 kW to 4,999 kW customers and retailer-enrolled customers.

Disposition of Account 1521 – SPC Variance

Board Staff 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 Orillia 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 $596 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 Orillia's proposal to include the balance in the Deferral and Variance Account rate riders calculated by Orillia to dispose of all DVAs proposed in this application nor with Orillia's method of allocating the balance to each class.

Orillia Submission

Orillia concurs with Board staff and respectfully requests that the Board authorize the disposition of the Account 1521 SPC balance of $596.

Retail Transmission Service Rate – Change in Billing Determinants

Board Staff Submission

The Board may wish to consider that Orillia's request is beyond the scope of an IRM application. Board staff notes that Orillia's proposal would be better suited for review as part of their next cost of service application in which all elements of a distributor's operations are reviewed.

Board staff makes the following comments in the event the Board decides that this issue is appropriately within the scope of an IRM application.

Orillia noted, in their response to Board staff interrogatory #1(a), that they have continued to bill interval meter customers and their street light customer based on 7-7 demand. Given that Orillia has continued to bill the Street Lighting class based on 7-7 demand, Board staff is unclear as to how any changes in billing determinants would arise, as projected by Orillia. The table provided by Orillia indicated an annualized aggregate increase in the billing determinant for the Street Lighting class of 2,898 kW. Board staff is also unclear, from a practical perspective, how the Street Lighting class would show an increase in demand between the hours of 7 AM and 7 PM when, when for the most part, street lights are not illuminated. Orillia may wish to clarify their response to Board staff interrogatory #1(a) in their reply submissions.

In its application, Orillia proposed to expand the use of 7-7 billing determinant from interval metered customers to all customers whose demand could be measured from 7 AM to 7 PM. In Orillia's response to Board staff interrogatory #1(a), Orillia indicated that it "was not aware of the intent of the Board to discontinue the 7-7 billing for Orillia Power." Board staff is not aware of any direction from the Board that would discontinue the use of the 7-7 billing determinant for interval metered customers. Orillia may wish to clarify its response to Board staff interrogatory #1(a).

Board staff notes that were the Board to approve Orillia's application, as filed, that a non-RPP customer in the GS 50 to 4,999 kW class might be subject to three separate billing determinants: (i) deemed 7-7 demand in kW for retail transmission network charges, (ii) billed kWh for GA sub-account disposition and (iii) billed kW for the remaining variable charges on the tariff. Given that Orillia has forecasted a minimal difference in billing determinants for the class under the proposed change in billing determinants, Board staff sees no reason to add such complexity for the sole reason of billing customers based on a slightly more accurate cost driver.

In the event the Board accepts that this issue is within the scope of an IRM application, subject to any clarifications to be provided by Orillia in its reply submissions, Board staff is not persuaded that Orillia's proposal would result in any material differences, at this time.

Orillia Submission

The table provided by Orillia in their response to Board staff IR #1(a) in their reply submissions indicated an annualized aggregate change in the billing determinant for the GS 50 to 4,999 kW and the Street Lighting class of 624 kW and 2,898 kW, respectively. The change represents a decrease in demand for both customer classes between the hours of 7 AM and 7 PM.

Board staff suggests that added complexity on bills for non-RPP customers would not be warranted based solely on a slightly more accurate cost driver for transmission network services. Board staff point out that a customer might be subject to three separate billing determinants: (i) deemed 7-7 demand in kW for retail transmission network charges, (ii) billed kWh for GA sub-account disposition and (iii) billed kW for the remaining variable charges on the tariff. Orillia believes that it is quite the opposite in that the customer is better served by fair rate making using the most appropriate cost driver for each component of the bill. Board staff's comment in this respect seems to support Orillia's request to present the GA rate rider on the electricity line of the bill.

Orillia concurs with Board staff that this matter would be better suited for review as part of its next cost of service application.

VECC Submission

VECC notes that there are some inconsistencies in the application. First, Sentinel Lighting customers are billed on a demand basis yet Orillia Hydro does not reference Sentinel Lighting in the application and the proposed approach has not been applied to Sentinel Lighting. VECC asks that Orillia Power provide an explanation for this in its reply submissions.

Second, Orillia Power states in Board Staff Interrogatory #1 (b) that currently 25 GS>50 customers and its Street Lighting customer are already billed on a 7/7 basis. However, in the 2012 RTSR Adjustment Work Form the reported billing determinants for the GS>50 and Street Lighting classes are the same for both the Network and Connection charges (see Tabs 4, 11 and 12). If the Network Charges for some (or all) of the customers in these two classes are based on a 7/7 determinant then the billing determinants for the two RTSRs should be different (as noted in OEB Staff Interrogatory #1 (b)). Also, since the values are taken from Orillia Power's RRR filing VECC is concerned that Orillia Power may also be using the 7/7 values to recover its volumetric distribution charges. Again, VECC asks that Orillia Power clarify these matters in its reply submissions.

In addition to these inconsistencies in the Evidence, VECC has concerns with Orillia Power's proposal to adjust the definition of its billing parameters without also adjusting the proposed rates.

VECC further states that it may be more appropriate for the Board to defer any changes to Orillia Power's billing determinants to its next Cost of Service-based rate application.

Orillia Submission

Orillia does not reference Sentinel Lighting in the proposed approach because 7 AM - 7 PM demand cannot be measured for these customers. Orillia uses the 7-7 approach for network transmission charges only. Orillia bills volumetric distribution charges on peak demand over the billing period.

Orillia appreciates the questions and comments put forward by VECC and Board staff in this matter and proposes to address these at the time of its next cost of service rate application.

Lost Revenue Adjustment Mechanism ("LRAM") Claim

Board Staff Submission

Orillia requested the recovery of an LRAM amount that includes lost revenues for 2010 CDM programs in 2010, as well as the persisting impacts from 2006, 2007, 2008, and 2009 programs in 2010.

Board staff notes that Orillia's rates were last rebased in 2010.

In response to Board staff IR # 9(e), Orillia indicated that its 2010 Board-approved load forecast of 316 GWh did not include savings for CDM programs for the period 2006 to 2010. Orillia Power noted that the proposed load forecast in its 2010 cost of service application was 311 GWh. Orillia Power further indicated that the proposed forecast reflected the ongoing economic downturn and proposed CDM savings for CDM programs from 2006 to 2010. During the settlement process, these savings were eliminated. The Board approved the Settlement Agreement and the resulting load forecast of 316 GWh was used to determine the approved 2010 rates.

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.

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.

Board staff notes that the fact that a load forecast was adjusted during settlement discussions, does not necessarily mean that no CDM savings are imputed in the final forecast approved by the Board. Orillia may want to highlight in its reply whether the issue of an LRAM application was addressed in its cost of service application.

In the absence of the above information, Board staff does not support the recovery of the requested 2010 lost revenues from 2010 CDM programs or the persisting lost revenues from 2006, 2007, 2008, and 2009 CDM programs in 2010 as these amounts should have been built into Orillia's last approved load forecast. As this makes up the total LRAM claim, Board staff is of the view that the Board should deny 100% of Orillia's claim.

VECC Submission

VECC submits that the Board should not approve Orillia Power's LRAM claim and associated rate riders for the reasons noted.

Orillia Submission

Orillia submits that its original proposed load forecast of 311 GWh in its 2010 cost of service review was a "good" forecast that has since been validated by actual 2010 sales of 309 GWh and actual 2011 sales of 307 GWh. Orillia's efforts to reach a settlement with the intervenors at its 2010 cost of service review were made at that time in a spirit of cooperation. It resulted in a 2010 Board-approved load forecast of 316 GWh. The negotiation inadvertently did not take into account the negative implication with regard to foregone future LRAM claims. This has resulted in a loss of distribution revenue for the four year period leading up to the next cost of service rate application.

Orillia is appealing to the Board to allow Orillia to continue to recover lost revenues clearly not included in its 2010 Board-approved load forecast, until its next cost of service rate application for distribution rates effective May 1, 2014.

<u>Disposition of Account 1562 – Payments in Lieu of Taxes (PILs)</u>

Board Staff Submission

Board staff submits that Orillia has followed the regulatory guidance and the decisions issued by the Board in determining the credit amount of $370,403 in its Account 1562 Deferred PILs evidence to be refunded to customers.

Orillia Submission

Orillia concurs with Board staff and respectfully requests that the Board authorize the disposition of the Account 1562 - Payments in Lieu of Taxes (PILs) credit balance of $370,403.

All of which is respectfully submitted.