

Innisfil Hydro Distribution Systems Limited

Final Reply Submission

2012 ELECTRICITY DISTRIBUTION RATES

**Innisfil Hydro Distribution Systems Limited
IRM3 Rate Application**

EB-2011-0176

February 24, 2012

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Overview

Innisfil Hydro Distribution Systems Limited (“Innisfil Hydro”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”), received on November 14, 2011, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Innisfil 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.

The purpose of this document is to provide comments on submissions filed by the Ontario Energy Board (the “Board”) on February 10, 2012 and the Vulnerable Energy Consumers Coalition (“VECC”) on February 8, 2012. Innisfil will provide comment on the following,

- 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”)
- Lost Revenue Adjustment Mechanism (“LRAM”) and Shared Savings Mechanism (“SSM”) Claim
- Account 1562 – Deferred PILs

Disposition of Group 1 Deferral and Variance Accounts

Innisfil is in agreement with the Board's submission to dispose of the Group 1 account balances over a two-year disposition. This recommendation will certainly assist in mitigating rate volatility for our customers.

Account 1521 – Special Purpose Charge (“SPC”)

Innisfil is in agreement with the Board's submission for disposition of the balances in Account 1521 and a disposition period of two years.

Lost Revenue Adjustment Mechanism (“LRAM”) and Shared Savings Mechanism (“SSM”) Claim

Innisfil Hydro will address the following submission components put forth by Board Staff and VECC re the Lost Revenue Adjustment Mechanism claim of \$180,250.03 submitted in EB-2011-0176,

a) Load Forecast

The Boards and VECC (Section 2) submissions on load forecast reference the CDM Guidelines (EB-2008-0037), page 18 Section 5.2 Calculation of LRAM,

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

Although respectful of the Board's and VECC's submission that CDM savings would be assumed to be incorporated in the load forecast for the 2009 rebasing year Innisfil Hydro would like to bring forward the following considerations as to why CDM savings were not included in our rebasing load forecast,

At the time of the release of the CDM Guidelines (EB-2008-0037) issued March 28, 2008 Innisfil Hydro was in the midst of preparing the load forecast for our 2009 COS Rate Application. In review of the CDM Guidelines in conjunction with the Chapter 2–Filing Requirements for Transmission and Distribution Applications (November 2006, Section 6), Innisfil was of the view that LRAM was a viable mechanism based on actual CDM

results issued by the OPA beyond 2009. The review also did not clearly indicate the requirement that a statement with respect to future LRAM claim(s) was necessary for our 2009 COS Rate Application (EB-2008-0233).

Additionally, when preparing the 2009 load forecast, Innisfil Hydro was aware that the OPA was in the midst of developing and introducing a comprehensive portfolio of twenty-six programs of which LDCs' would experience volumetric reductions beyond programs that Innisfil Hydro did not directly participate in.

Innisfil Hydro's 2009 load forecast was supported by a regression analysis that reviewed the actual monthly power purchased data from 2001 to 2007 to arrive at a prediction formula to forecast the load for 2009. From 2001 to 2007, only 2006 and 2007 would have any CDM savings that might influence the results of the regression analysis. However, in the regression analysis each year from 2001 to 2007 influences the prediction formula in a similar manner. In other words, one year does not influence the prediction formula more than any other. As a result, the CDM savings from the 2006 and 2007 programs will have minimal impact on the resulting prediction formula since these two years do not hold any more weight in the regression analysis than any other actual year. As Innisfil Hydro only had 2 years of historical CDM data available (2006 and 2007), it was our belief that our 2013 Rate Application would have the statistically supported foundation to provide at least 5 years of actual CDM impacts and the trend impact of the introduction of the OPA portfolio of programs.

The table below was taken from Innisfil Hydro's 2009 Cost of Service application. It indicates that the regression model predicted 2007 to be higher than the actual results. This suggests that the results of the prediction model for 2007 did not take into consideration any CDM savings in 2007. Since this same model was used to then forecast 2008 and 2009, it could be assumed that any CDM savings achieved in 2007 were not reflected on a forward basis.

Table 4
 IHDSL's Total System Purchases

	<u>Actual</u>	<u>Predicted</u>	% Difference
2002	221	221	-0.16%
2003	226	225	-0.32%
2004	225	225	0.00%
2005	235	236	0.45%
2006	228	227	-0.25%
2007	235	236	0.25%
2008 (WN)		238	
2009 (WN)		240	

To further demonstrate that CDM impacts were not included in Innisfil Hydro’s load forecast the table below reflects actual results for 2009, 2010, and 2011 compared to the 2009 rebasing year. This clearly shows that the actual results for 2009, 2010 and 2011 are significantly lower than the 2009 load forecast. In our view the magnitude of the difference strongly supports the position that the 2009 load forecast did not assume any CDM savings since the actual 2009, 2010 and 2011 results, which does include actual CDM savings, are significantly lower than the 2009 load forecast.

Analysis of 2009 Load Forecast Data to 2009 to 2011 Actuals							
Consumption Data by Rate Class	2009 COS Load Forecast	2009 RRR Filing Actuals	Variance to Load Forecast	2010 RRR Filing Actuals	Variance to Load Forecast	2011 RRR Filing Actuals	Variance to Load Forecast
Residential kWh	155,528,870	150,373,777	-3.3%	148,340,356	-4.6%	150,098,110	-3.5%
GS LT 50 (kWh)	31,359,068	28,113,433	-10.3%	29,188,874	-6.9%	30,548,695	-2.6%
GS GT 50 (kW)	116,345	136,122	17.0%	144,502	24.2%	139,425	19.8%
USL (kWh)	562,039	493,680	-12.2%	493,680	-12.2%	489,312	-12.9%
Sentinel Light (kW)	344	339	-1.5%	326	-5.2%	306	-11.0%
Street Light (kW)	4,924	4,370	-11.3%	4,389	-10.9%	4,416	-10.3%

Innisfil Hydro would like to point out that throughout the 2009 COS process neither Board staff or the 4 interveners on record addressed the issue of future LRAM claims or statement. Innisfil Hydro fully believes that this was due to the ongoing evolution of EDVARR and the CDM processes. However, if the requirement to state our intentions of future LRAM claims was not clearly outlined within the CDM guidelines nor addressed in the 2009 COS process, Innisfil Hydro is of the view that the assumption that CDM impacts were within the 2009 COS load forecast should not stand.

Innisfil Hydro assumed that a LRAM claim would be available to mitigate the Loss Revenues as a result of CDM activities and we respectfully ask the Board to consider our submission and allow the LRAM claim as submitted for 2009 (May-December), 2010 and persistent (EUL – Effective Useful Life) savings for 2011.

b) Recovery of Lost Revenue in 2011

In determining the amounts to claim in our LRAM, Innisfil Hydro took into account the direction provided on page 34 of the Board’s Chapter 2 – Filing Guidelines for Transmission and Distribution Applications (June 2011) which states,

“Distributors intending to file an LRAM or SSM application for CDM Programs funded through distribution rates, or an LRAM application for CDM Programs funded by the OPA between 2005 and 2010, shall do so as part of their 2012 rate application filings, either cost-of-service or IRM. If a distributor does not file for the recovery of LRAM or

SSM amounts in its 2012 rate application, it will forego the opportunity to recover LRAM or SSM for this legacy period of CDM activity.”

It is Innisfil Hydro’s view that we have followed the guidelines outlined in Chapter 2 as the resulting LRAM claim for 2011 included verified program results (2010) and resulting persistent measurement results from previous program years until the end of 2011. The persistent measurements resulted from 2009 and 2010 program evaluated OPA results and are the most recent EUL (Effective Useful Life) for each program measure implemented in these years.

The CDM Guidelines (Section 5.3 Timing of Application) and Chapter 2- Filing Requirements for Transmission and Distribution Applications (Section 6.3 Lost Revenue Adjustment and Shared Savings Mechanisms) both state the following,

“When applying for LRAM, a distributor should ensure that sufficient time has passed to ensure that the information needed to support the application is available. Distributors may submit an application for recovery of LRAM amounts at any time following the end of the approved plan term.”

Innisfil Hydro is of the view that 1 year is a reasonable timeframe with respect to program and persistent measurements as long as the supporting evidence is representative of a past delivered/implemented program year. Specifically, the persistent or EUL measurements incorporated into the 2011 LRAM claim are primarily a result of only 2009 (2 years) and 2010 (1 year) delivered/implemented program measures.

Innisfil Hydro respectfully requests the Board to provide direction and clarification on the definition of “sufficient time” with respect to both delivered program and persistent measurement savings, as this clarification will provide clarification as to the impacts of our 2013 load forecast will be applied with respect to CDM initiatives.

As requested by Board staff, Innisfil Hydro is providing a revised LRAM which only reflects 2010 delivered programs and the associated rate riders.

LRAM Rate Rider by Class 2012 - Reflecting 2010 Programs Only				
Rate Class	LRAM \$	CARRYING CHARGES	2009 Forecasted	Per
			kWh/kW	Volumetric
Residential	\$ 5,929.91	\$ 163.24	155528870	0.0000
General Service Less than 50 kW	\$ 2,854.34	\$ 78.57	31359068	0.0001
General Service 50 to 999 kW	\$ 1,401.23	\$ 38.57	116345	0.0124
	\$ 10,185.48	\$ 280.38		

Account 1562 – Deferred PILs

Innisfil Hydro is requesting the board review the proposed excess interest true-up calculation submitted for the PILs account 1562 reconciliation.

Innisfil Hydro is requesting a weighted debt rate of 9.19% be allowed within the PILs excess interest true-up calculation. The 9.19% weighted cost of capital was approved by the board within the 2006 EDR filing (EB-2005-0382). Innisfil Hydro provided interrogatory reply (IR) evidence to the board staff within EB-2005-0382 IR #8 the prudence of the interest rates relative to the timing of when the debentures were purchased compared to the actual market rates. Innisfil Hydro incurred \$9,800,000 worth of debentures in March 1995 to purchase the Ontario Hydro assets to form the hydro distribution company

Board staff is submitting Innisfil Hydro is requesting to vary decision EB-2000-0452. Innisfil Hydro is not requesting to vary the decision EB-2000-0452 for the deemed debt rate of 7.25%. Innisfil Hydro is requesting the Board to allow the approved weighted debt rate of 9.19% from decision EB-2005-0382 to be utilized within the PILs excess interest true-up calculation. Innisfil Hydro is not requesting collection of the actual interest paid to Royal Trust in excess of the deemed 7.25% from decision EB-2000-0452 during the PILs true-up timeframe of Oct 2001 to April 2006.

The board staff is submitting Innisfil Hydro received the benefit of the 9.88% return on equity. In fact the 9.88% rate of return was given 1/3 in 2001, 1/3 in 2002 and the final 1/3 in 2005. The final 1/3 in 2005 was required to be spent on CDM programs so in fact the full deemed rate of return was not allowed until 2006.

Board staff is submitting the debt disclosure with the 2002 financials shows a note payable to the Town at 7.25%. The debentures are listed separately within the note disclosure with interest rates of 8-9.75%. The IR evidence filed to School Energy Coalition (SEC) IR #7 and Energy Probe (EP) IR #15 within EB-2008-0233 as to the debentures repayment schedule, by-laws and orders authorizing territory expansion and debentures, memorandum citing non provision for hydro utility to have debentures issued in their own name and the payee certification (Royal Trust). The debentures are a 3rd party debt and not affiliate debt as provided as evidence within the interrogatory responses to SEC #7 and EP #15. The debentures are listed as payable to the Town of Innisfil within the financial statements because Innisfil Hydro was unable to secure the debentures directly and the Town of Innisfil was listed as the debenture payee with Royal Trust.

Innisfil Hydro has submitted within the interrogatory process the incorrect version of the revised PILs continuity schedule that did not reflect the revised true-up adjustments for the excess interest and the related updated carrying charges. Innisfil Hydro will submit a final PILs 1562 continuity schedule and 2001 to 2005 SIMPIL model to reflect the decision made by the board for the excess interest calculation.

Board staff is submitting Innisfil Hydro deducted the full interest expense in its tax returns. Innisfil Hydro is requesting the tax implications of the excess interest remain with Innisfil Hydro and not given to the ratepayer since the excess interest cost was not borne by the ratepayer. The excess interest was paid from the allowed rate of return and not the rates during the applicable time period.

Innisfil Hydro is in agreement with the board staff to exclude the interest expense from customer deposits and the late payment charge from the PILs excess interest true-up calculation.

~All of which is respectfully submitted~