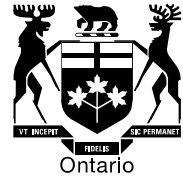


**Ontario Energy
Board**
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

**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

March 9, 2012

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Westario Power Inc.
2012 IRM Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0205**

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Westario Power Inc. and to all other registered parties to this proceeding.

In addition please remind Westario Power Inc. that its Reply Submission is due by March 23, 2012.

Yours truly,

Original Signed By

Birgit Armstrong
Advisor, Applications and Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2012 ELECTRICITY DISTRIBUTION RATES

Westario Power Inc.

EB-2011-0205

March 9, 2012

**Board Staff Submission
Westario Power Inc.
2012 IRM Rate Application
EB-2011-0205**

Introduction

Westario Power Inc. (“Westario”) 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 Westario 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 the Board with the submissions of Board staff based on its review of the evidence submitted by Westario.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application models by Westario. In response to Board staff interrogatories which requested either a confirmation that these discrepancies were errors or an explanation supporting the validity of the original data filed with the application, Westario confirmed certain errors as described below and provided the necessary corrections to the models.

Board staff makes submissions on the following matters:

- Review and Disposition of Group 1 Deferral and Variance Account Balances;
- Account 1521 – Special Purpose Charge Disposition (SPC);
- Retail Transmission Service Rates (“RTSR”) Adjustment Workform;
- Lost Revenue Adjustment Mechanism (“LRAM”); and
- Account 1562 – PILs Disposition.

Review and Disposition of Group 1 Deferral and Variance Account Balance

Background

The *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative* (the "EDDVAR Report") provides that during the IRM plan term, the 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. Debit balances are recoverable from customers whereas credit balances are amounts payable to customers.

Westario requested that the Board review and approve the disposition of its December 31, 2010 balances of Group 1 Deferral and Variance account balances, including interest as of April 30, 2012. The total balance of the Group 1 accounts is a credit of \$749,063. This amount results in a total claim per kWh of (\$0.001670), which exceeds the preset disposition threshold. Westario proposed a one-year disposition period for its Group 1 account balances.

Submission

Quantum

Board staff notes that the principal balances to be disposed as of December 31, 2010 reconcile with the amounts reported as part of the Reporting and Record-keeping Requirements ("RRR"). Board staff therefore submits that the balances should be disposed on a final basis.

Rate Rider Calculation

In response to Board staff interrogatory #5, Westario stated that the billing determinants are based on 2010 RRR data that was then adjusted for Long-Term Load Transfers (LTLT) and loss factor. Board staff submits that the 2010 RRR data should not be loss-adjusted since the volumes to which the rate riders will apply will not be loss adjusted.

Board staff asks Westario to provide a table showing the 2010 RRR data by rate class, as reported to the Board and confirm that this data has not been adjusted for losses.

ACCOUNT 1521 – SPECIAL PURPOSE CHARGE (“SPC”)

Background

In response to Board staff interrogatory #8, Westario completed the following table which indicates a residual balance of \$1,640.23 for disposition, comprising of principal as of December 31, 2011 and interest to April 30, 2012.

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 Year End Carrying Charges Balance	Carrying Charges for 2012 (Jan 1 to April 30)	Total for Disposition (Principal & Interest)
\$178,295.00	\$92,575.84	\$554.75	\$85,719.16	\$554.75	\$84,952.97	\$315.59	\$766.19	\$870.34	\$3.70	\$1,640.23

Submission

Board staff notes that the usual practice by the Board is to dispose of audited deferral and variance account balances. Board staff further 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 Licensed 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.

RTSR Adjustment Workform

Background

Westario requested an adjustment to its RTSRs, using the RTSR Workform provided by the Board to assist distributors in calculating their specific RTSR adjustments.

On Sheet 4 of the RTSR Workform the Board specify that the Applicant is to enter the most recently reported RRR billing determinants and to ensure the billing determinants are non-loss adjusted. The Board approved loss factor is then applied to the metered kWh's to arrive at the billed values.

In response to Board staff interrogatory #3, Westario stated that for the input data on Sheet 4 "Westario Power used the 2010 RRR data reported to the Board as the starting point for the data contained in the 2012 IRM RTST Workform. The data was then adjusted for Long-Term Load Transfer (LTLT) and loss factor".¹ Board staff notes that Westario also input a loss factor of 1.0788.

Submission

In response to Board staff interrogatory #8, Westario advised Board staff to use the data provided by Westario in its application evidence because it has been adjusted for losses. Board staff notes that the loss factor adjustment is part of the formula used to calculate the RTS rate, based on a loss factor input on sheet 4 of the RTSR Workform. Board staff submits that the billing determinant input on sheet 4 of the RTSR should be based on most recent historical RRR data as reported to the Board, which should be non-loss adjusted to avoid duplicating the loss-factor adjustment.

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 also noted that distributors should use the most current input assumptions available at the time of the third party review when calculating a LRAM amount.

Westario originally sought to recover a total LRAM claim of \$357,937.04 over a one-year period. In response to Board staff interrogatory #7(b), Westario updated its LRAM claim using the final 2010 OPA program results. Westario's updated LRAM claim is \$368,916.56. The lost revenues include the effect of CDM programs implemented from 2006-2010. Westario also updated its LRAM rate rider calculations to reflect accurate 2010 RRR data in response to Board staff interrogatory #6(a). Westario has requested approval of these savings persisting until April 30, 2012.

Submission

Persisting impacts of 2006-2009 programs and 2009 lost revenues

Westario has requested the recovery of an LRAM amount that includes lost revenues for 2009 CDM programs in 2009, as well as the persisting impacts from 2006, 2007, 2008, and 2009 programs from January 1, 2009 to April 30, 2012.

Board staff notes that Westario's rates were last rebased in 2009.

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 time².

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

¹ Board staff interrogatory response #3(a)

² Section 5.2: Calculation of LRAM, Guidelines for Electricity Distributor Conservation and Demand Management (EB-2008-0037)

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. Westario may want to highlight in its reply whether the issue of an LRAM application was addressed in their cost of service application.

In the absence of the above information, Board staff therefore does not support the recovery of the requested 2009 lost revenues from 2009 CDM programs or the persisting lost revenues from 2006, 2007, 2008, and 2009 CDM programs in 2009, 2010, 2011 or 2012 as these amounts should have been built into Westario's last approved load forecast.

2006, 2007, 2008, and 2010 programs

Board staff notes that Westario has not collected the lost revenues associated with CDM programs delivered in 2006, 2007, 2008, and 2010. Board staff notes Westario was under IRM for these years. 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 2008, and the persisting lost revenues from 2007 programs in 2008, as Westario did not previously recover these amounts.

Board staff notes that this is consistent with what the Board noted in its decisions on applications from Hydro One Brampton (EB-2011-0174) and Whitby Hydro (EB-2011-0206).

Board staff requests that Westario provide an updated LRAM amount that only includes lost revenues from 2006, 2007, 2008, and 2010 CDM programs, including the persisting lost revenues noted above, in the years 2006, 2007, 2008, and 2010. The associated rate riders should be calculated and provided based on the updated 2010 RRR data provided in response to Board staff interrogatory #6(a). This will allow for the issuance of the final rate order in a timelier basis if the Board is inclined to approve only the lost revenues associated with the 2006, 2007, 2008, and 2010 programs.

Board staff also submits that it is premature to consider any lost revenues persisting in 2011 or 2012.

Account 1562 – PILs Disposition

Background

The PILs evidence filed by Westario in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered from customers, SIMPIL³ Excel worksheets and continuity schedules that show the principal and interest amounts in the account 1562 deferred PILs balance. The Board-approved maximum deemed interest expense was \$943,380. Total interest expense as reported on the audited financial statements from 2001 to 2005 was less than the maximum deemed interest; and as a result, there are no issues with respect to the interest true-up calculations.

In pre-filed evidence Westario applied to recover from customers a debit balance of \$435,885 consisting of a principal debit amount of \$280,595 plus related carrying charges of \$155,289.

Submission

PILs Recoveries from Customers

In the Excel rate adjustment models, there are worksheets that calculate rate slivers related to the PILs dollar amounts to be recovered from ratepayers. The fixed and variable PILs rate slivers are multiplied by billing determinants to calculate the amounts recovered. Board staff asked a series of interrogatories concerning the billing determinants and PILs recoveries used by Westario.

The trend for the majority of distributors is that the PILs recoveries exceed the proxies for the full years of 2003, 2004 and 2005. PILs rates slivers were derived in 2002 using billing determinants estimated for the 2001 fiscal year. As demand and population grew, the PILs dollar amounts recovered were higher than the proxy set using 2001 billing

³ Spreadsheet implementation model for payments-in-lieu of taxes

determinants. The table below shows Westario's evidence for the partial year for 2002 from March to December and the full years of 2003, 2004 and 2005.

PILs Proxies vs. Recoveries	2002 partial	2003	2004	2005
PILs Proxies in Rates	928,634	1,204,607	997,627	1,023,736
PILs Recoveries Calculations	911,150	1,110,151	944,958	969,364
Difference	17,484	94,456	52,669	54,372

Distribution revenues by year as disclosed in the audited financial statements filed in evidence appear in the table below and show a slight increasing trend.

Distribution revenue	2001	2002	2003	2004	2005
\$	N/A	6,831,877	6,950,294	6,889,287	7,050,274

The table below shows billing determinants from the various application models that Westario filed with the Board. The statistics recorded in the PILs recoveries worksheet appear low compared to the statistics in the rate applications. Board staff invites Westario to consider the implications of the data.

Customer Counts as filed in 2002, 2004 and 2005 RAM

	2001	2002	2003
Customer Class	from 2002 RAM	from 2004 RAM	from 2005 RAM
Residential	17,540	17,604	17,704
GS < 50 kW	2,312	2,345	2,362

The data from the rate applications as seen in the table above is not reflected in the customer statistics reported in the PILs recoveries worksheet. Customer count for the residential rate class show approximately 15,500 customers from October 2002 to March 2004 which appear substantially low compared to the residential customer count of 17,704 as reported in the 2005 RAM for 2003. The General Service < 50kW rate class shows approximately 2,140 customers from October 2002 to March 2004 when

the 2005 RAM reported 2,362 customers for 2003.

The volumetric billing determinants also appear to be understated in the PILs recoveries worksheet. The 2002 billing determinants appear to have internal inconsistencies especially within the June to September period for the residential, General Service <50kW, General Service >50kW, street light and unmetered scattered load rate classes.

2002 Billing Determinants as per PILs Recoveries worksheet

Rate Class	June	July	Aug	Sept
Residential	89,560	19,358,438	20,785,546	21,048,872
General Service < 50 kW	1,846,647	5,895,294	(70,509)	17,066,463
General Service > 50 kW	(20,605)	3,863	33,256	72,261
Street Lights	2,010	560	906	1,007
Unmetered Scattered Load	11,032	83,470	6,061	52,245

Full years of 2003, 2004 and 2005 for the General Service >50kW rate class reported in the PILs recoveries worksheet are within the 340,000 kW range although the evidence filed in the rate applications depict billing determinants that exceed 400,000 kW as seen in the table below.

Billing Determinants as filed in 2002, 2004 and 2005 RAM

Customer Class	Billing Parameter	For 2001 from 2002 RAM PILs	For 2002 from 2004 RAM	For 2003 from 2005 RAM
General Service > 50 KW	kWs	386,624	433,778	458,871

Board staff submits that Westario should review its calculations of the PILs recoveries with the evidence filed in 2002, 2004 and 2005 EDR. Please file active Excel worksheets to support the reply submission.

All of which is respectfully submitted.