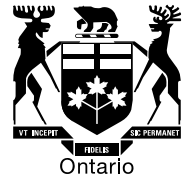


**Ontario Energy
Board**
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

**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

October 10, 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: Whitby Hydro Electric Corporation
2013 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2012-0177**

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding. This document is being forwarded to Whitby Hydro Electric Corporation and to all other registered parties to this proceeding.

Yours truly,

Original Signed By

Georgette Vlahos
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2013 ELECTRICITY DISTRIBUTION RATES

Whitby Hydro Electric Corporation

EB-2012-0177

October 10, 2012

**Board Staff Submission
Whitby Hydro Electric Corporation
2013 IRM3 Rate Application
EB-2012-0177**

Introduction

Whitby Hydro Electric Corporation (“Whitby Hydro”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on August 3, 2012 under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Whitby Hydro charges for electricity distribution, to be effective January 1, 2013. The Application is based on the 2013 3rd Generation Incentive Regulation Mechanism (“IRM”).

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 Whitby Hydro.

Board staff has no concerns with the data supporting the updated Retail Transmission Service Rates proposed by Whitby Hydro. Pursuant to Guideline G-2008-0001, updated on June 28, 2012, Board staff notes that the Board will update the applicable data at the time of this Decision based on any available updated Uniform Transmission Rates.

Whitby Hydro completed the Deferral and Variance Account continuity schedule included in the 2013 IRM Rate Generator Model at Tab 5 for its Group 1 Deferral and Variance Accounts. Whitby Hydro’s total Group 1 Deferral and Variance Account balances amount to a debit of \$5,693 which includes interest calculated to December 31, 2012. Based on the threshold test calculation, the Group 1 Deferral and Variance Account balances equate to \$0.0000 per kWh which does not exceed the threshold, and as such, Whitby Hydro did not request disposition of these Accounts.

Board staff has reviewed Whitby Hydro’s Group 1 Deferral and Variance account balances and notes that the principal balances as of December 31, 2011 reconcile with the balances reported as part of the *Reporting and Record-keeping Requirements*. Also, the preset disposition threshold has not been exceeded. Accordingly, Board staff has no issue with Whitby Hydro’s request to not dispose of its 2011 Deferral and Variance Account balances at this time.

In its Manager's Summary, Whitby Hydro noted that the calculated volumetric rate riders from the Tax-Savings Workform indicate amounts with low levels of materiality for several of the customer classes¹, and as such, Whitby Hydro requested that it be allowed to record the total amount to be refunded in Account 1595 to be disposed in a future rate application, when sufficient balances have accumulated to ensure that the intended disposition results are achieved. Whitby Hydro also noted that when the dollar amount of the disposition by customer class is converted to a rate rider, the result produces discrepancies between the calculated disposition and the intended tax savings². Whitby Hydro provided the following table.

<u>2013 Shared Tax Savings - Analysis of Savings to Distribute vs Projected Savings Generated By Rate Riders</u>								
	Billed kWh (A)	Billed kW (B)	Tax Chg Rate Rider/kWh (C)	Tax Chg Rate Rider/kW (D)	Calculated Amount (E=A*C or B*D as applicable)	Total Z Factor Change\$ by Rate Class (F)*	Diff \$ (G=F-E)	Diff% (G/F)
Residential	350,407,180		-\$0.0001		-\$35,041	-\$31,941	-\$3,099	10%
GS<50 kW	75,150,446		-\$0.0001		-\$7,515	-\$4,857	-\$2,658	55%
GS>50 kW	414,547,692	966,330		-\$0.0126	-\$12,176	-\$12,164	-\$12	0%
USL	2,493,809		-\$0.0001		-\$249	-\$302	\$53	-17%
Sent. Lights	43,361	120		-\$0.0759	-\$9	-\$9	\$0	0%
Streetlights	9,090,771	24,361		-\$0.0370	-\$901	-\$901	\$0	0%
	851,733,259	990,811			-\$55,891	-\$50,174	-\$5,717	
* as per OEB's 2013 Tax Sharing Model v1.0								

Board staff notes that Whitby Hydro completed the Tax-Savings Workform with the correct rates which reflects the Revenue Requirement Work Form from the Board's cost of service decision in EB-2009-0274. Board staff agrees with Whitby Hydro that the differences between the intended savings and the amount that would be disposed due to the calculated rate riders is material for the Residential, GS<50 kW and USL rate classes. Board staff has no issue with Whitby Hydro's proposal to record the Tax-Savings amount of \$50,174 in Account 1595 for future disposition.

The Board's decision (EB-2009-0274) in Whitby Hydro's last cost of service rate application prescribed a phase-in period to adjust the revenue-to-cost ratio for the Street Lighting and Sentinel Lighting rate classes 50% towards the lower end of the target

¹ Manager's Summary, EB-2012-0177, Page 6

² *Ibid*

range in 2011 while the remaining 50% would be addressed evenly over 2012 and 2013. The residual revenue would be balanced by decreasing the revenue-to-cost ratio of the Residential rate class. Whitby Hydro's current application included adjustments to the revenue-to-cost ratios for the Street Lighting and Sentinel Lighting classes from 63.7% to 70.00% and 62.10% to 70.00% respectively, resulting in an adjustment to the revenue-to-cost ratio for the Residential class from 103.93% to 103.65%. Board staff submits that the proposed revenue-to-cost ratio adjustments are in accordance with the Board's findings in its EB-2009-0274 decision and therefore Board staff has no issues with Whitby Hydro's proposal.

Board staff makes detailed submissions on the following matters:

- Conservation and Demand Management; and
- Rates for Embedded Wholesale Market Participants (EWMP).

Conservation and Demand Management

Background

In its manager's summary for the current application, Whitby Hydro discusses the load forecast it proposed as part of its 2010 Cost of Service rate application (EB-2009-0274). The evidence that was presented outlined that CDM was not included as an explanatory variable in the regression model used for load forecasting, nor was there any manual adjustments for CDM included outside of the forecasting methodology. Whitby Hydro did not feel it had sufficient information at the time of preparing the load forecast to incorporate specific CDM reductions into its load forecast as CDM targets had not been established prior to the filing of the load forecast. Whitby Hydro further noted that the load forecast submitted for the 2010 cost of service application was subsequently accepted as filed with no changes in the settlement agreement for use in 2011 rates.

As part of its 2012 IRM Application (EB-2011-0206), the Board's decision accepted part of Whitby Hydro's LRAM request but did not allow for persistence of pre-2011 CDM program impacts into 2011 as it stated:

"As such, the Board is of the view that it is not appropriate to vary from the stated policy which states that lost revenues are only accruable until new rates are set by the Board, as the CDM savings would be assumed to be incorporated into the load forecast at that

*time*³.”

While the Board made its decision with respect to the LRAM request largely on the basis that lost revenues could not be accrued in the year that new cost of service rates were set, Whitby Hydro has noted that the Board did not address the issue of what (if any) CDM amount was or was not included in the load forecast.

Whitby Hydro further submitted that given that the recent CDM guidelines (EB-2012-0003) require that a true-up calculation be recorded in the LRAM Variance Account to show the comparison between actual, verified impacts of CDM activities and the level of CDM program activities included in the distributor's load forecast, Whitby Hydro has requested that the Board consider providing a decision on the matter of whether its 2010 load forecast included explicit CDM adjustments. Whitby Hydro takes the position that its load forecast did not explicitly include CDM adjustments.

Submission

Whitby Hydro's last cost of service application was for 2010 rates. Since Whitby Hydro has not filed for disposition of the 2011 balance in its LRAMVA account, Board staff submits that it is premature to consider the matter of a CDM adjustment to the 2010 load forecast at this time. The Board will have to consider this matter when Whitby Hydro applies to clear its LRAMVA account for 2011 and subsequent years.

Rates for Embedded Wholesale Market Participants (“EWMP”)

Background

In its Manager's Summary, Whitby Hydro advised the Board that one of its General Service 50 – 4,999 kW demand (GS>50 kW) customers has now become an EWMP. Whitby Hydro requested that the Board address two options proposed to help ensure that applicable rates are identified and applied to the EWMP customers(s) using a reasonable approach that is consistent and approved by the Board.

- Option 1 – Set up a new customer rate class for the EWMP which will identify only the approved rates applicable for that class.

³ Decision and Order, EB-2011-0206, Page 14

- Option 2 – Continue using the existing GS>50 kW demand customer rate class but identify on the rate order those rates that would not be applicable to the EWMP GS>50 kW customer (or conversely those that would be applicable).

Whitby Hydro has currently included modifications to its proposed 2013 Tariff of Rates and Charges to incorporate option 2. Specifically, Whitby Hydro has included a note for the GS >50 kW class that specifies that the wholesale market service charge, and the rural or remote rate protection charge do not apply to EWMPs. Whitby Hydro has also indicated that it does not charge the debt retirement charge to EWMPs.

Submission

Board staff notes that option 2 is the appropriate methodology to follow in the context of an IRM application since the establishment of a new rate class would ordinarily necessitate the development of a cost allocation study. Board staff further notes that Whitby Hydro may address in its next cost of service application whether it may be more appropriate, from a cost causality standpoint, to establish a separate rate class for EWMPs. If not warranted, option 2 would continue.

Board staff agrees with Whitby Hydro that a distinction needs to be made with respect to the rates that are not applicable to EMWPs, versus those that are. Whitby Hydro notes in its Manager's Summary that the following charges would be settled by the EWMP directly with the IESO:

- Wholesale Market Service related charges;
- Rural Rate Protection Charge;
- Commodity Charge;
- Global Adjustment Charge; and
- Debt Retirement Charge.

Board staff seeks confirmation that the IESO would apply the debt retirement charge to an EMWP as opposed to the distributor. Board staff submits that Whitby Hydro should provide evidence that this component is settled directly with the IESO.

Whitby Hydro included a footnote to the tariff of rates and charges for the GS>50 KW rate class that identifies the components of the tariff that are not applicable to EMWPs.

While Board staff agrees that a distinction needs to be made with respect to the rates that are not applicable to EMWP's as noted above, Board staff submits that a better approach might be to make that distinction under the "Application" section of Whitby Hydro's GS >50 kW tariff of rates and charges. Board staff suggests the following wording:

Unless specifically noted, this schedule does not contain any charges for the electricity commodity, be it under the Regulated Price Plan, a contract with a retailer or the wholesale market price, as applicable. It should be noted that the Wholesale Market Service Rate and Rural Rate Protection Charge do not apply to customers who are embedded wholesale market participants.

Whitby Hydro stated that all rate riders that existed at the time that the customer transitioned to become an EWMP would continue to apply until their sunset date. For any new rate riders, these would need to be reviewed as part of the rate application process to determine whether they should apply to EWMPs. Board staff agrees with Whitby Hydro that the current rate riders should continue to apply to the new EWMP since that customer would have contributed to those variances that took place prior to becoming an EWMP. Board staff notes that in Whitby Hydro's current 2013 IRM application, Whitby Hydro is not seeking any riders for LRAM, deferral/variance account disposition and/or tax-sharing. The following discussion is in respect of which Group 1 Account balances should not apply to EWMPs.

Board staff notes that an EWMP is invoiced by the distributor for distribution, retail transmission and network connection charges. The EWMP has a contractually negotiated alternate energy arrangement with the IESO, and is billed directly by the IESO for energy consumption, wholesale market service rates and rural rate protection.

In its reply submission, Whitby Hydro may wish to discuss its view on the billing characteristics described above.

Board staff suggests that it may be useful for Whitby Hydro to review the Board's decision on Bluewater's 2011 IRM application (EB-2010-0065). In that application, 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 to EWMP's 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 EWMP did not contribute in any material way to the balances in this account and therefore found that the EWMP should not participate in its disposition.

Board staff notes that in its next application, Whitby Hydro should address whether the disposition of Account 1588 – RSVA Power should be disposed to its EMWP.