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BY EMAIL

November 29, 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: Lakefront Utilities Inc.
2013 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2012-0144**

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding.

Please note that Lakefront Utilities Inc.'s Reply Submission is due by December 13, 2012.

Yours truly,

Original Signed By

Martha McQuat
Project Advisor
Electricity Rates Applications

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2013 ELECTRICITY DISTRIBUTION RATES

Lakefront Utilities Inc.

EB-2012-0144

November 29, 2012

**Board Staff Submission
Lakefront Utilities Inc.
2013 IRM3 Rate Application
EB-2012-0144**

Introduction

Lakefront Utilities Inc. ("LUI") filed an application (the "Application") with the Ontario Energy Board (the "Board") on September 14, 2012 under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that LUI charges for electricity distribution, to be effective May 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 LUI.

Board staff notes that LUI's application contained several small discrepancies in certain rates entered into the models. Specifically, these included the rates entered into the Revenue-to-Cost model for the GS 3,000-4,999 kW and Street Lighting classes, as well as the Sentinel Lighting class entered into the Rate Generator model. In responses to interrogatories, LUI agreed that these rates were inconsistent with the tariff of rates and charges approved for 2012. In the case of the Sentinel Lighting class, the discrepancy appears to have been the result of rounding in the model. Board staff will make these corrections in the final models.

Board staff submits that LUI has appropriately completed the Shared Tax Savings model, and agrees that there is no tax savings to be shared. LUI last rebased in 2012 and there are no tax changes for 2013.

Deferral and Variance Account Balances

LUI completed the Deferral and Variance Account continuity table contained in the Rate Generator model which showed numerous discrepancies between the 2011 RRR balances as entered in the model and the 2011 balances as submitted in LUI's RRR filings. In response to Board staff interrogatory #4, LUI provided corrections to the 2011 RRR balances entered into the model to reflect its final RRR balances, which contain unbilled entries at the end of the year. Board staff notes that the 2011 RRR balances

entered into the model are now consistent with the 2011 RRR balances as reported to the Board.

LUI reported a credit/debit balance of \$15,404 for its Group 1 Accounts as of December 31, 2011, including interest projected to April 30, 2013. This amount results in a total debit claim of \$0.0001 per kWh, which does not exceed the preset disposition threshold of \$0.001 per kWh. As a result LUI did not seek disposition of its Group 1 Account balances in this proceeding.

Board staff has no issues with LUI's proposal.

Account 1521

LUI requested approval to dispose of a credit balance in Account 1521 of \$61,133. Board staff notes that in LUI's 2012 cost of service application, the Board approved a Settlement Agreement which contained a credit balance in Account 1521 of \$21,303 which was approved for disposition.

In response to Board staff IR #5, LUI explained the balance in the account as follows:

LUI, in the Cost of Service Application in 2012 had entered into the Deferral & Variance Account (EDDVAR) template, provided by the OEB, the amount of \$-21,303 (a negative figure), however the actual value of the account in question was a positive \$21,303 at the end of 2010. (the rate payers as at December 31 2010, still owed LUI, an amount of \$21,303), however the collection period had not yet been concluded.

LUI had inadvertently entered the data into the RRR filing, and their own continuity records in the reverse of the actual amount. Had LUI entered the correct positive balance, the 2011 yearend balance in the account would have been \$-38,669, and the disposal would have been \$+21,303 = leaving approx. \$-17,893 that was over collected from rate payers.

The actual value should have been the \$21,303 (positive value). When LUI then proceeded to dispose of the \$-21,303, caused the balance in this account to become a larger negative value of \$-21303 +(\$-38669) = \$-59,972. Plus the associated interest, this balance comes to \$-61,133.

In response to Board staff IR #33d) in its 2012 cost of service rate application, LUI provided the following detail¹ regarding its Account 1521:

¹ Table has been edited from original form to remove an extra amount for 2012 interest, which does not appear to enter into the calculation of the final balance.

SPC Assessment (Principal Balance)	Amount Recovered from Customers in 2010	Carrying Charges for 2010	December 31, 2010 Year-end Balance (Principal and Carrying Charges)	Amount Recovered from Customers 2011	2011 Principal Balance	Carrying Charges to April 30, 2012	Total for Disposition
106,153.00	(85,027.86)	290.48	21,415.62	(42,487.07)	(21,361.93)	(231.17)	(21,302.62)

In response to Board staff interrogatory #33e) in that proceeding, LUI stated that “based on actual recoveries in this account as of December 31, 2011, the amount that is recoverable, including associated carrying charges until April 30, 2012 is \$21,302.62”.

The information provided in LUI's continuity tables in this application is inconsistent with that provided in its 2012 proceeding. In particular:

- LUI did not enter the amount of the SPC Assessment in the 2010 Transactions column
- LUI did not enter the recoveries from customers in 2010 of (\$85,027.86)
- LUI has entered an amount in 2010 Adjustments which results in a closing principal balance of \$21,416, which is the amount of principal and carrying charges at year end 2010 in the above noted table.
- LUI has entered an amount of (\$59,749) in 2011 Transactions, which is inconsistent with the “actual recoveries” of (\$42,487.07) reported in EB-2011-0250
- LUI has reported carrying charges for the 12 months of 2011 of (\$336), while the table provided in EB-2012-0250 shows (\$231.17) for the 16 month period from January 2011 to April 30, 2012

Board staff is concerned about the accuracy of the balance in Account 1521 as presented by LUI. Furthermore, the amount approved for disposition as part of the 2012 rate application was on a final basis. However, recognizing that this apparent error results in a credit balance (i.e. an amount owing to customers), Board staff submits that it would be appropriate for the Board to approve disposition on an interim basis, and to consider conducting an audit of Account 1521 by the Board's Regulatory Audit and Accounting group.

LRAM Rate Rider (Account 1568)

LUI has requested to dispose of its Lost Revenue Adjustment Mechanism Variance

Account 1568 (“LRAMVA”) balance of \$9,768. The claim is for lost revenues in 2011 from CDM programs contributing towards Lakefront’s 2011-2014 CDM Targets and pre-2011 Conservation and Demand Management (“CDM”) programs that were completed in 2011.

Load Forecast

On April 26, 2012 the Board issued updated Guidelines for Electricity Distributor Conservation and Demand Management (EB-2012-0003) (the “2012 CDM Guidelines”). The 2012 CDM Guidelines established the LRAMVA to capture, at the customer rate-class level the difference between the following:

- i. The results of actual, verified impacts of authorized CDM activities undertaken by electricity distributors between 2011-2014 for both Board-Approved CDM programs and OPA-Contracted Province-Wide CDM programs in relation to activities undertaken by the distributor and/or delivered for the distributor by a third party under contract (in the distributor’s franchise area); and
- ii. The level of CDM program activities included in the distributor’s load forecast (i.e. the level embedded into rates).²

The Board also noted in the 2012 CDM Guidelines that distributors would be generally expected to include a CDM component in their load forecast in cost of service proceedings. The Board noted that this was to ensure that its customers are realizing the true effects of conservation at the earliest date possible and to mitigate the variance between forecasted revenue losses and actual revenue losses.

In response to VECC IR#3, LUI noted that its 2011 load forecast was not adjusted to account for CDM activities. Board staff notes that the last cost of service rate application for LUI was for 2012 rates. As such, LUI noted that its final 2011 LRAMVA balance is not subject to any reductions to account for an increase in rates as only its 2012 rates, and not its 2011 rates, included an adjustment for the CDM savings it anticipates realizing in association with its 2011-2014 CDM Targets.

Board staff notes that LUI was under IRM in 2011 and did not have any adjustments made to its Board-approved load forecast to reflect savings associated with its CDM Targets. Board staff submits that 100% of LUI’s 2011 net energy savings are eligible for recovery through the LRAMVA.

² Section 13.2: LRAM Mechanism for 2011 – 2014, *Guidelines for Electricity Distributor Conservation and Demand Management* (EB-2012-0003)

LRAMVA – Significance of total balance

At Section 13.4 of the Board's 2012 CDM Guidelines it notes that "at a minimum, distributors must apply for disposition of the balance of the LRAMVA at the time of their cost of service rate applications. Distributors may apply for the disposition of the balance in the LRAMVA on an annual basis, as party of their Incentive Rate Mechanism rate applications, if the balance is deemed significant by the applicant."

In response to Board staff IR #9(a) and VECC IR #1(e), LUI noted that it has applied for disposition of its LRAMVA because an entry for LRAMVA balances was included in the Rate Generator Model and because of the unknown materiality threshold governing the disposition of the LRAMVA.

Board staff notes that the LRAMVA balance that LUI seeks to dispose is made up of its final 2011 gross savings as reported to LUI in the OPA's final 2011 evaluation report. Board staff submits that LRAM has only been recovered and approved by the Board on a net basis. Board staff submits that the net savings are representative of the savings that the distributor has directly affected. Conversely, the gross savings include, amongst other externalities, savings from participants who would have participated in an energy efficiency program even if no incentive was offered. These participants are often referred to as free riders. Further, Board staff submits that the CDM Targets were developed as net figures³. Board staff submits that it is appropriate that the LRAMVA amounts be calculated by multiplying LUI's final 2011 net savings by customer class by the approved volumetric distribution charge for the applicable rate class. Board staff has calculated the balance in LUI's LRAMVA on a net basis to be \$7,583 and requests that LUI confirm this calculation in its reply submission. Board staff will update the LRAM rate riders accordingly in the final rate order.

Board staff submits that while the overall LRAMVA amount LUI seeks disposition of seems small, LUI has indicated that the amount is significant although it has not provided additional argument as to why this is so. Subject to LUI's confirmation of Board staff's calculation of its LRAMVA on a net basis, Board staff supports the disposition of the LRAMVA 1568.

³ Decision and Order on CDM Targets, EB-2010-0215/EB-2010-0216, November 12, 2010, Appendix A, LDC CDM Targets

Revenue-to-Cost Ratios

LUI proposed no changes to its revenue-to-cost ratios for 2013. In its 2012 application, parties agreed and the Board approved a Settlement Proposal which allowed for the movement of the GS 3,000 to 4,999 to the minimum policy range in equal increments over four years, as follows:

All movement of outliers to the upper and lower boundaries of their ranges will take place in one adjustment in the 2012 test year, with the exception of the General Service 3,000 – 4,999 kW customer class, in respect of which the adjustment to the lower boundary of the range will take place in equal increments over a 4 year period.⁴ (emphasis added)

In response to interrogatories from Board staff and VECC, LUI stated that this rate class contains only one customer, and that this customer experienced a revenue-to-cost ratio adjustment from 28.63% to 57.5% in 2012. LUI stated that it did not intend to make an adjustment in 2013 to mitigate the rate shock to this customer.

Board staff notes that the Settlement Proposal, which was agreed to by LUI as well as all other parties and approved by the Board, is quite clear that the revenue-to-cost ratio for this rate class is to be adjusted in equal increments over a four year period. This would require LUI to make an adjustment in 2013, which is the first year in LUI's IRM term. Board staff submits that LUI should be required to abide by the terms of its 2012 Settlement Proposal and adjust the revenue-to-cost ratio for the GS 3,000-4,999 kW rate class in equal increments, as calculated in the response to Board staff interrogatory #8.

While Board staff appreciates LUI's attempts to minimize the rate impact to its single affected customer, Board staff notes that without an adjustment of 5.75% in 2013, LUI will be required to make an adjustment of 7.5% in 2014, 2015 and 2016. Board staff suggests that failure to adjust the revenue-to-cost ratio for that class in 2013 adjustment will result in greater rate impact for the remaining transition years.

- All of which is respectfully submitted –

⁴ EB-2011-0250 Settlement Proposal, s. 7.2, page 37