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BY EMAIL

February 11, 2013

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: Kenora Hydro Electric Corporation Ltd.
2013 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2012-0141**

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

As a reminder, Kenora Hydro Electric Corporation Ltd.'s Reply Submission is due by February 25, 2013.

Yours truly,

Original Signed By

Daniel Kim
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2013 ELECTRICITY DISTRIBUTION RATES

Kenora Hydro Electric Corporation Ltd.

EB-2012-0141

February 11, 2013

**Board Staff Submission
Kenora Hydro Electric Corporation Ltd.
2013 IRM3 Rate Application
EB-2012-0141**

Introduction

Kenora Hydro Electric Corporation Ltd. (“Kenora Hydro”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on December 3, 2012 under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Kenora Hydro 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 Kenora Hydro.

Board staff has no concerns with the data supporting the updated Retail Transmission Service Rates (“RTSR”) proposed by Kenora Hydro. Pursuant to Guideline G-2008-0001, updated on June 28, 2012, Board staff notes that the Board will update the RTSR Adjustment Work Form with the updated Uniform Transmission Rates effective January 1, 2013.

Board staff makes submissions on the following matters:

- Disposition of Group 1 Deferral and Variance Account Balances as per the *Electricity Distributors’ Deferral and Variance Account Review Report* (the “EDDVAR Report”);
- Revenue-to-Cost Ratio Adjustments; and
- Lost Revenue Adjustment Mechanism (“LRAM”) claim.

Disposition of Group 1 Deferral and Variance Account Balances as per the EDDVAR Report

Kenora 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. Kenora Hydro’s total Group 1 Deferral and Variance Account

balances as of December 31, 2011 amount to a credit of \$142,915 which includes interest calculated to April 30, 2013. Based on the disposition threshold test calculation of \$0.001 per kWh, the Group 1 Deferral and Variance Account balances of \$0.0013 per kWh exceed the threshold and as such Kenora Hydro requested disposition of these account balances over a one-year period.

Board staff has reviewed Kenora Hydro's Group 1 Deferral and Variance Account balances and notes that the principal amounts to be disposed of as of December 31, 2011 reconcile with the amounts reported as part of the Reporting and Record-keeping Requirements. Board staff therefore submits that the amounts should be disposed of on a final basis. Board staff also submits that Kenora Hydro's proposal for a one-year disposition period for its Group 1 Account balances is in accordance with the EDDVAR Report.

Revenue-to-Cost Ratio Adjustments

In this Application, Kenora Hydro proposed to adjust the revenue-to-cost ratio for the Unmetered Scattered Load rate class from 129% to 120%. The revenue decrease from this class would increase the revenue-to-cost ratio for the GS>50kW customer class.

Board staff submits that the proposed revenue-to-cost ratio adjustment is in accordance with the Board's decision in Kenora Hydro's 2011 cost of service proceeding (EB-2011-0135).

LRAM Claim

LRAMVA for 2011 CDM Activities

Kenora Hydro has requested to dispose of the balance in its LRAMVA (Account 1568). The amount is a credit of \$2,780, which includes \$40 in carrying charges, for lost revenues in 2011 from its 2011 CDM programs. Kenora Hydro proposed to refund this amount over a one-year period.

Section 13.4 of the Board's Conservation and Demand Management Guidelines, April 26, 2012 (EB-2012-0003) (the "2012 CDM Guidelines") states that "distributors may apply for disposition of the balance in the LRAMVA on an annual basis as part of their

IRM rate applications if the balance is deemed significant by the applicant.” In response to VECC interrogatory #1a, Kenora Hydro noted that the proposed LRAMVA amount is not significant and stated that it would remove its request to dispose of the balance at this time if the Board directed Kenora Hydro to do so.

Board staff agrees that the LRAMVA amount is not material. However, Board staff has reviewed the LRAMVA calculations and submits that Kenora Hydro has properly calculated the credit amount of \$2,780 and has appropriately relied on the 2011 final evaluation report from the OPA in calculating its LRAMVA amount. Therefore, in the interests of clearing the balance in a timely manner it may be appropriate for the Board to approve the balance at this time.

The Board’s 2012 CDM Guidelines state in section 13.2 that the LRAMVA amount is determined by calculating the difference between the results of actual, verified impacts from CDM activities undertaken between 2011-2014 and the level of CDM program activities included in the distributor’s load forecast. In Kenora Hydro’s 2011 cost of service application (EB-2010-0135), the Board approved a CDM adjustment of 522,000 kWh and 562 kW to Kenora Hydro’s load forecast to account for CDM activities to meet its CDM Targets. As found in Kenora Hydro’s application at Appendix E, and in response to VECC interrogatory #2a, Kenora Hydro achieved 78,631 kWh in savings from its CDM programs in 2011. As Kenora Hydro has collected higher rates due to its load forecast being adjusted for a certain level of CDM activity that it did not meet, Kenora Hydro’s LRAMVA is in a credit position. If the Board determines it is appropriate for Kenora Hydro to dispose of its 2011 LRAMVA amount at this time, Board staff supports a refund of \$2,870 to Kenora Hydro’s rate payers.

- All of which is respectfully submitted –