**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 22, 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: Erie Thames Powerlines Corporation**
**2013 IRM3 Distribution Rate Application**
**Board Staff Submission**
**Board File No. EB-2013-0018**

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 Erie Thames Powerlines Corporation and to all other registered parties to this proceeding.

Yours truly,

*Original Signed By*

Georgette Vlahos
Analyst, Applications & Regulatory Audit

Encl.

Ontario

# ONTARIO ENERGY BOARD

## STAFF SUBMISSION

2013 ELECTRICITY DISTRIBUTION RATES

Erie Thames Powerlines Corporation

EB-2013-0018

**March 22, 2013**

# Board Staff Submission
# Erie Thames Powerlines Corporation
# 2013 IRM3 Rate Application
# EB-2013-0018

## Introduction

Erie Thames Powerlines Corporation ("Erie Thames") filed an application (the "Application") with the Ontario Energy Board (the "Board") on February 1, 2013, seeking approval for changes to the distribution rates that Erie Thames 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 Erie Thames.

In the interrogatory phase, Board staff identified certain discrepancies in the data in the models filed by Erie Thames. In response to Board staff interrogatories, requesting either a confirmation that these discrepancies were errors or an explanation supporting the validity of the original data filed with the Application, Erie Thames confirmed that there were errors and provided the corrected data. Board staff will make the necessary corrections to Erie Thames' models at the time of the Board's Decision on the Application.

Also through the interrogatory phase, Board staff noted that Erie Thames did not calculate the projected interest on its Group 1 Deferral and Variance Account balances for the period from January 1, 2013 to April 30, 2013. Board staff requested that Erie Thames provide the interest amounts for each account in order for Board staff to make the necessary corrections to the model.

Erie Thames provided the requested interest amounts. The updated total Group 1 Deferral and Variance Account balances as at December 31, 2011 amount to a credit of $217,723 which includes interest calculated to April 30, 2013. Based on the threshold test calculation of $0.001 per kWh, the Group 1 Deferral and Variance Account balances do not exceed the threshold, and as such, Erie Thames did not request disposition of these Accounts.

Board staff has reviewed Erie Thames' 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*. The preset disposition threshold has not been exceeded. Accordingly, Board staff submits that disposition is not warranted at this time.

Board staff makes detailed submissions on the following matters:

- Tax-Savings Workform;
- Retail Transmission Service Rates; and
- Price Cap Adjustment – Stretch Factor.

**Tax-Savings Workform**

In its Manager's Summary, Erie Thames noted that "the tax changes create a savings of $23,364 with 50% or $11,682 being retained by Erie Thames. The resulting volumetric rates generated by the model are immaterial in all rate classes with the exception of the Street and Sentinel Lighting classes."

In its interrogatories, Board staff noted that the rate riders calculated in the Tax-Savings Workform are immaterial for only the Residential and General Service Less Than 50 kW rate classes ($0.0000). Board staff also noted that Erie Thames only entered the tax-savings rate riders into tab 10 of its Rate Generator Model for its Street and Sentinel Lighting rate classes. Board staff noted that Erie Thames should either enter all rate riders into the proposed rates tab in the Rate Generator Model or request for the entire tax-savings amount be recorded in Account 1595 for future disposition when sufficient amounts have accumulated.

Board staff also noted that it was unable to reconcile the line items Regulatory Taxable Income, Corporate Tax Rate, Tax-Impact and Grossed-up Tax Amount to Erie Thames' Revenue Requirement Work Form from EB-2012-0121.

In its interrogatory responses, Erie Thames agreed that there were errors entered in the Workform and provided the corrected data. As mentioned above, Erie Thames' original evidence noted a tax sharing amount of $11,682 to be refunded to rate payers. Subsequent to the corrections made to the line items noted in the previous paragraph, Board staff notes that the updated tax-savings amount is $5,574 with a total of $2,787 (50%) to be refunded to ratepayers.

In response to Board staff interrogatory #3, Erie Thames confirmed that it wishes to dispose of the entire tax-savings amount. Board staff submits that it has no issue with respect to Erie Thames' request and, subject to the Board's approval, Board staff will update the Rate Generator model to include all tax-savings rate riders for all applicable line items at the time of the Decision on this Application.

**Retail Transmission Service Rates ("RTSR")**

In its Manager's Summary, Erie Thames stated that "it does not seek any changes to its Retail Transmission Service Rates. The applicant's current rates have only been in place since January 1, 2013 and as such there is little history with respect to these rates and their accuracy in recovering the applicant's costs for RTSR at this time."

Through interrogatories, Board staff noted that on December 20, 2012 the Board issued its Rate Order for Hydro One Transmission (EB-2012-0031) which adjusted the Uniform Transmission Rates ("UTR") effective January 1, 2013. Board staff noted that Erie Thames' current RTSR's are not calculated based on the most recent UTR's. Board staff requested that Erie Thames provide a further explanation as to why it believes this is appropriate.

In its interrogatory responses, Erie Thames stated that it "felt that given it had changed its UTR's effective January 1, 2013, further changes would not be required…however given the changes to the 2013 UTR's, Erie Thames' would agree that updating the rates is appropriate." Erie Thames provided a completed RTSR Workform for Board staff's review.

Board staff notes the following discrepancies in the data filed:

- Tab 4 – "RRR Data": Board staff is unable to reconcile the data entered in columns "Non-Loss Adjusted Metered kWh" and "Non-Loss Adjusted Metered kW" to Erie Thames' most recent RRR 2.1.5 filings. Board staff also notes that the "Applicable Loss Factor" does not reconcile to the one found in Erie Thames' current tariff sheet.
- Tab 6 – "Historical Wholesale": Board staff notes that the "Line Connection" rate under the Hydro-One section does not reconcile to the applicable Hydro One rate of $0.64. If Erie Thames is charged a combined Line and Transformation connection rate, Board staff notes that both the line connection and transformation connection columns should be completed.

Board staff invites Erie Thames, in its reply submission, to address the above discrepancies and if necessary to re-file a completed RTSR Model for the Board's review and approval. Board staff notes that as a partially embedded distributor, Erie Thames is also subject to Hydro One Sub-Transmission Rates. The following effective rates should be entered on Tab 5 of the RTSR Workform.

**2013 Uniform Transmission Rates**

| | |
|---|---|
| Network Service Rate | $3.63 per kW |
| <u>Connection Service Rates</u><br>Line Connection Service Rate<br>Transformation Connection Service Rate | <br>$0.75 per kW<br>$1.85 per kW |

**2013 Sub-Transmission RTSRs**

| | |
|---|---|
| Network Service Rate | $3.18 per kW |
| <u>Connection Service Rates</u><br>Line Connection Service Rate<br>Transformation Connection Service Rate | <br>$0.70 per kW<br>$1.63 per kW |

Board staff submits that Erie Thames should confirm that the data entered on tab 4 in columns "Non-Loss Adjusted Metered kWh" and "Non-Loss Adjusted Metered kWh" is in fact not adjusted by Erie Thames' applicable loss factor.

**Price Cap Adjustment – Stretch Factor**

In its Application, Erie Thames noted that the Board's most recent report (the "Report"), issued on November 28, 2012, on utility specific stretch factors puts Erie Thames in the third cohort with a stretch factor of 0.6%. Erie Thames stated that, given its unique circumstances, a stretch factor of 0.2% should be applied. Erie Thames stated that it is of the view that it is not appropriate to rely on the Report in the present circumstances for the following reasons:

1) 2009 Strike

In 2009, Erie Thames was subject to a 19 week strike and so, expenditures in 2009 are not reflective of the efficiency of expenditures. Also, following the strike, Erie Thames started to re-organize itself from a virtual utility to a more traditional utility with approximately 45 full-time equivalent employees.

2) 2011 Merger/2012 Cost of Service Proceeding

In EB-2010-0386, the Board approved the amalgamation of Erie Thames with Clinton Power Corporation and West Perth Power Inc.

On June 1, 2011, Erie Thames amalgamated with the above two noted utilities, and as such, the savings from the amalgamation (approximately $91,700) would not be evident until 2012 and beyond. Following the merger, Erie Thames was approved for rates on a cost of service basis for the amalgamated utility (EB-2012-0121). The Settlement Agreement (approved by the Board) acknowledged that the identified savings had been incorporated into the OM&A costs. Further, the manner of calculating the approved OM&A costs was based upon rates that existed prior to Clinton Power Corporation and West Perth Power Inc. rebasing as stand-alone entities in 2011. As such, the 2011 rate increases for Clinton Power Corporation and West Perth Power Inc. were not directly factored into the 2012 cost of service numbers.

Erie Thames also stated that the Report of November 28, 2012 does not consider the circumstances and specific one-time events which may have an impact on costs for a utility.

**Submission**

Board staff submits that as will be the case in any Board policy and procedure directive, not all parties may be in agreement with the results.

Based on the current record, Board staff submits that there is no unique evidence to suggest that Erie Thames should be treated any differently than the other distributors in Ontario making 2013 rate applications under the Board's 3rd Generation IRM plan. Board staff notes that over the course of the 3$^{rd}$ Generation IRM plan, a number of utilities have amalgamated and/or experienced work stoppages.

Based on the evidence in this proceeding, Board staff is of the view that the reasons provided by Erie Thames are not materially different from those that were previously rejected by the Board in its EB-2009-0221 Decision on EnWin's 2010

IRM rate application. In response to VECC interrogatory #1 in the current proceeding, which questioned Erie Thames' awareness of the circumstances and outcomes of other utilities which have requested a change in their stretch factor rankings, Erie Thames noted:

> From Erie Thames' understanding, where a utility challenged the Stretch Factor, such as Enwin, the concern of the utility was attributable to the underlying approach used in the consultant's ranking report (PEG at the time) to prepare the ranking. Erie Thames understood that the utility was essentially arguing the ranking presented in the PEG Report were not representative of the efficiency of the organization for the year for which the ranking were presented. Put another way, the position advanced was a problem with the mathematical analysis performed to rank the utilities.

Board staff notes that in that application, EnWin took issue with not only the stretch factor methodology of the Report, but also EnWin's extraordinary circumstances (i.e. the unemployment rate in Windsor). In its Decision on EnWin, the Board found that there was no compelling reason to deviate from the guidelines.

Board staff submits that the same reasoning should apply to the current proceeding as the circumstances of Erie Thames are not uniquely different from those that have been faced by other distributors, and as such, should not be reason to deviate from the Board's Report in the case of Erie Thames.

In its responses to Board staff interrogatories #11 and #13 Erie Thames provides reasons why it should be treated differently and bases those reasons on factors that currently underpin its rates as adjusted for the 2012 EDR process. Erie Thames argues that the prior version of the Erie Thames organization is not reflective of the efficiencies of the current organization as approved by the Board for ratemaking purposes in 2012. Board staff submits that this is not the approach taken by the Board in its Report. The Board has an established methodology which uses historical data for all distributors with a sample period for 2013 of 2009-2011 for the update to the stretch factors. To afford Erie Thames special treatment because of the timing of its latest cost of service application, or because of extraordinary events that are not unique to Erie Thames, would be unfair to all other distributors that experienced similar events or timing scenarios during the 3rd generation IRM plan.

All of which is respectfully submitted