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**BY EMAIL**

December 9, 2013

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: London Hydro Inc. ("London Hydro")  
2014 IRM4 Distribution Rate Application  
Board Staff Submission  
Board File No. EB-2013-0150**

In accordance with Procedural Order #1, please find attached Board Staff's submission in the above noted proceeding. London Hydro and the intervenor have been copied on this filing.

London Hydro's reply to the submission is due on December 23, 2013.

Yours truly,

*Original Signed By*

Suresh Advani

Encl.



# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION**

**2014 ELECTRICITY DISTRIBUTION RATES**

**London Hydro Inc.**

**EB-2013-0150**

**December 9, 2013**

**Board Staff Submission  
London Hydro Inc.  
2014 IRM4 Rate Application  
EB-2013-0150**

## **Introduction**

London Hydro Inc. (“London Hydro”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”) on September 26, 2013, seeking approval for changes to the distribution rates that London Hydro charges for electricity distribution, to be effective May 1, 2014. The Application is based on the 2014 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 London Hydro.

Board staff has reviewed London Hydro’s 2014 IRM application and its responses to interrogatories. Other than the submissions set out below, staff has no concerns with the application and the changes agreed to by the applicant.

While the preset disposition threshold was not exceeded for Group 1 Accounts, Board staff notes that the Group 1 principal balances as of December 31, 2012 reconcile with the amounts reported by London Hydro as part of the *Reporting and Record-keeping Requirements* (“RRR”).

Board staff makes detailed submissions on the following:

- Review and Disposition of Lost Revenue Adjustment Mechanism

### **Review and Disposition of Lost Revenue Adjustment Mechanism Variance Account (“LRAMVA”)**

The Board’s *Guidelines for Electricity Distributor Conservation and Demand Management* (the “2012 CDM Guidelines”) issued on April 26, 2012 outline the information that is required when filing an application for LRAMVA.

In London Hydro's original application it requested the recovery of an LRAM amount of \$59,667. This amount was in relation to CDM programs delivered in 2011 and 2012. London Hydro initially indicated it was not making a request to dispose of its LRAMVA at this time.

In Board staff IR#1, staff asked London Hydro to reconcile its request for an LRAM amount with the 2012 CDM Guidelines. In its response, London Hydro updated its request and indicated that it had mischaracterized its original request as an LRAM recovery rather than a request to dispose of its LRAMVA. Board staff submits that London Hydro's updated request is properly characterized as a disposition of its LRAMVA since the lost revenues are in relation to CDM programs implemented between 2011 and 2014.

London Hydro's revised LRAMVA amount is now \$190,847.64, from an original amount of \$59,667, including carrying charges of \$6,708.77. London Hydro noted that its revised LRAMVA amount consists of lost revenues it has realized in 2012 due to the persisting savings from 2011 CDM programs in 2012 and new savings from 2012 CDM programs in 2012.

Board staff notes London Hydro received Board approval of an LRAMVA amount of \$176,092 in its 2013 cost of service application (EB-2012-0146). This amount consisted of lost revenues from London Hydro's 2011 CDM programs in 2011 and the persisting lost revenues from the 2011 CDM programs in 2012.

In further response to Board staff IR#, it appears that London Hydro has updated its LRAMVA amount in order to reflect its actual CDM savings for the persisting lost revenues from its 2011 CDM programs in 2012, in addition to its 2012 CDM program savings in 2012.

In Board staff's view, the amendment appears to result from London Hydro's failure to apply any multiplier factor to the peak demand (kW) savings totals related to its industrial CDM program when it determined the LRAMVA balance as part of proceeding EB-2012-0146. Board staff notes that for this program, distributors calculate lost revenues by multiplying peak demand savings by the number of months the CDM program was active in that year, which in most cases is 12 months. Peak savings apply because industrial customers in this rate class are charged for distribution services on

the basis of their load in a billing period. In EB-2012-0146, London Hydro's approved LRAMVA amount for its GS 50 kW to 4,999 kW rate class was \$10,912.55. If the proper monthly multiplier (12) had been applied to these peak demand (kW) savings, the total lost revenues for the GS 50 kW to 4,999 kW rate class would have been approximately \$131,000. Board staff submits that the error of incorrectly calculating this component of the LRAMVA amount appears to have resulted in an under-recovery of approximately \$120,000 before carrying charges.

Board staff submits that London Hydro's updated LRAMVA amount in response to Board staff IR#1 has been incorrectly calculated. Board staff submits that, although it appears London Hydro inadvertently erred when calculating its EB-2012-0146 LRAMVA amount, the Board's approval of the disposition of London Hydro's LRAMVA account balance in EB-2012-0146 was made on a final basis. Board staff submits that any adjustment to this amount in the current proceeding would constitute retroactive ratemaking, contrary to the principles of certainty and finality that are a necessary component of effective rate regulation<sup>1</sup>. Board staff notes that the Board has disallowed such requests in the past, such as in the Board's Decision and Order on Orangeville Hydro's 2013 IRM application (EB-2012-0155). In this case Orangeville's request to adjust certain account balances approved in its 2012 IRM application (EB-2011-0190) was rejected. The Board found that Orangeville has control of its books and records and has responsibility to ensure mistakes do not occur.

Further, Board staff notes that the unrecovered lost revenue adjustment of \$120,000 is approximately 0.2% of its \$62 million revenue requirement, less than half the materiality threshold of 0.5%<sup>2</sup> of revenue requirement.

Board staff submits that London Hydro should only be permitted to recover its lost revenues that took place in 2012 from its 2012 CDM programs rather than an updated amount to amend previously approved final balances. Board staff is currently unable to identify London Hydro's specific LRAMVA amount in relation to its lost revenues in 2012 solely from 2012 CDM programs. Consistent with Section 13.4 of the Board's 2012 CDM Guidelines, a distributor is only required to dispose of its LRAMVA at the time of its cost of service application, whereas disposition during an IRM year is at the distributor's discretion. Given that information is not on the record for what the LRAMVA

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<sup>1</sup> EB-2013-0022, Decision and Order, April 25, 2013, page 10

<sup>2</sup> Board's Filing Requirements for Electricity Distribution Rate Applications, Chapter 1, Overview, July 17, 2013, p. 9-10, Section 2.4.4, Materiality Thresholds,

balance would be for lost revenues in 2012 solely from 2012 CDM programs, and therefore this information has not been tested by Board staff, the Board may wish to defer approval of the LRAMVA balance until London Hydro's next rate application.

All of which is respectfully submitted