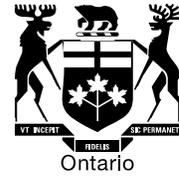


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**BY EMAIL**

February 2, 2010

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319, 27th Floor  
2300 Yonge Street  
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Board Staff Submission on Brantford Power Inc.  
2010 Electricity Distribution Rates Application  
Board File Number EB-2009-0214**

Please see attached Board staff's submission for the above proceeding. Please forward the attached to Brantford Power Inc. and any intervenors in this proceeding.

Brantford Power Inc. reply to submissions is due February 23, 2010.

Yours truly,

*Original signed by*

Martin Benum  
Advisor, Applications and Regulatory Audit



# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION**

2010 ELECTRICITY DISTRIBUTION RATES

Brantford Power Inc.

EB-2009-0214

**February 2, 2010**

**Board Staff Submission**  
**Brantford Power Inc.**  
**2010 IRM3 Rate Application**  
**EB-2009-0214**

**Introduction**

Brantford Power Inc. (“Brantford Power”) filed an application with the Ontario Energy Board (the “Board”), received on October 21, 2009, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that Brantford Power charges for electricity distribution, to be effective May 1, 2010. The application is based on the 2010 3<sup>rd</sup> Generation Incentive Regulation Mechanism.

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 Brantford Power.

Board staff makes submissions on the following matters:

- Potential Tax Sharing Rate Rider;
- Disposition of Deferral and Variance Accounts as per the Electricity Distributors’ Deferral and Variance Account Review Report (the “EDDVAR Report”);
- Treatment of Smart Meter Funding Adder;
- Adjustments to the Revenue to Cost Ratios;
- Adjustments to the Retail Transmission Service Rates; and
- Accounting for the implementation of the Harmonized Sales Tax (“HST”).

**POTENTIAL TAX SHARING RATE RIDER**

**General Background**

The Supplemental Report of the Board on 3<sup>rd</sup> generation incentive regulation issued on September 17, 2008 determined that a 50/50 sharing of the impact of currently known legislated tax changes, as applied to the tax level reflected in the Board-approved base rates for a distributor, is appropriate. The calculated annual tax changes over the plan term are to be allocated to customer rate classes on the basis of the Board-approved base-year distribution revenue. These amounts will be collected from or refunded to

customers each year of the plan term, over a 12-month period, through an explicit volumetric rate rider derived using annualized consumption by customer class underlying the Board-approved base rates.

### **Brantford Power Specific Background**

Using the Board's Supplemental Filing module Brantford Power's Tax Sharing amount is a refund of \$81,740. This amount when unitized using Brantford Power's volumetric billing determinants results in energy-based kWh rate riders less than four decimal places and demand-based kW rate riders less than two decimal places.

### **Submission**

Board staff notes that as a result of having kWh Tax Sharing rate adders of \$(0.0000) when rounded to the fourth decimal place and kW Tax Sharing rate adders of \$(0.00) when rounded to the second decimal place, the refund amount of \$81,740 will not be returned to ratepayers, which defeats the intent of tax sharing process. Board staff submits that the Board may wish to consider directing Brantford Power to record the Tax Sharing refund amount of \$81,740 in the variance account 1595 for disposition in a future rate application.

## **DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT**

### **General Background**

For purposes of 2010 IRM applications, the EDDVAR Report requires a distributor to determine the value of its December 31, 2008 Group 1 Deferral and Variance account balance and determine whether the balance exceeded the preset disposition threshold of \$0.001 per kWh using the 2008 annual kWh consumption reported to the Board. When the preset disposition threshold is exceeded, a distributor is required to file a proposal for the disposition of Group 1 account balances (including carrying charges) and include the associated rate riders in its 2010 IRM Rate Generator for the disposition of the balances in these accounts. The onus is on the distributor to justify why any account balance in excess of the threshold should not be cleared.

Any distributor exceeding the preset disposition threshold was required to file a Deferral and Variance Account Workform.

## **Brantford Power Specific Background**

### **Annual Disposition**

Brantford Power has requested the disposition of its Group 1 account balance. Brantford Power stated that it had exceeded the preset disposition threshold test and has requested the disposition of its Group 1 account balances over a four year period. Board staff interrogatory # 6a requested that Brantford Power complete and submit an updated version 4 of the Deferral Variance Account Workform. Brantford Power has complied with this request.

### **Global Adjustment**

In response to Board staff interrogatory # 2a, Brantford Power stated it had reviewed the Regulatory Audit & Accounting Bulletin 200901 and confirmed that it had not accounted for its Account 1588 RSVA power and global adjustment sub-account in accordance with this Bulletin.

In response to Board staff interrogatory # 2b, Brantford Power confirmed that it made adjustments subsequent to its initial application to comply with the Regulatory Audit & Accounting Bulletin 200901 with respect to account 1588 and the global adjustment sub-account. Brantford Power noted that:

“It was determined that account 1588 and sub-account Global Adjustment were not recorded in accordance with this Bulletin. BPI had included Global Adjustment amounts for Regulated Price Plan (RPP) consumers in the sub-account. BPI had included all of IESO charge 146 Global Adjustment Settlement Amount in the sub-account that constitutes both RPP and non-RPP consumers costs. BPI also calculated the amount of IESO charge 142 Regulated Price Plan Settlement Amount that related to RPP consumers and recorded those amounts in the sub-account. Based on analysis for the period 2005 to 2008, the 1588 sub-account was overstated by \$54,642.47 including carrying charges.”

In response to Board staff interrogatory # 3a, Brantford Power agreed that a separate rate rider be prospectively applied to non-RPP customers to dispose of the global adjustment sub-account balance would be appropriate on the basis of cost causality. Brantford Power however noted that:

“BPI further notes that there are three components of Account 1588. RSVA – Cost of Power:

1. Power purchase variance unrelated to the Global Adjustment;
2. Global Adjustment for RPP customers; and
3. In the sub-account, Global Adjustment for the non-RPP customers.

In order to be consistent, if separating out the Global Adjustment for non-RPP customers and depending upon materiality, consideration could also be given to separating out the Global Adjustment amounts for RPP customers so that only the RPP customers would be charged for their portion of that remaining balance in 1588.”

In response to Board staff interrogatories # 3b, Brantford Power stated that it did currently have the billing capability to have a separate rate rider applicable to non-RPP customers to dispose of the global adjustment sub-account balance. Brantford Power however indicated that changes to business processes including changes to the Customer Information System, setup of unique rate codes within the system, and manual changes to rate codes when customers move between RPP and Non-RPP would be necessary. As a result, a reasonable timeframe to implement these changes would be required.

As of November 1, 2009 the MUSH sector (Municipalities, Universities, Schools and Hospitals) and other designated institutional customers that remained as RPP customers were required to switch to non-RPP customer status as per O. Reg. 95/05 of the Ontario Energy Board Act, 1998. In response to Board staff interrogatories # 5d, Brantford Power indicated that the rate rider should not apply to RPP customers, and should exclude customers in the MUSH sector. Brantford Power further indicated that it would have the billing capability to exclude the customers in the MUSH sector.

Brantford Power has requested that the Board review and approve the disposition of the December 31, 2008 balances of other Group 1 Deferral and Variance accounts as defined by the EDDVAR Report. The total balance of the Group 1 accounts, excluding the 1588 global adjustment sub-account is a credit of \$8,345,279. The balance in the 1588 global adjustment sub-account is a debit of \$749,789. Brantford Power has included interest, using the Board's prescribed interest rates, on these account balances up to April 30, 2010. Debit balances are amounts recoverable from customers.

Brantford Power did not express any concern with respect to the impact on its cash flow were it to use the one-year default disposition period contemplated in the EDDVAR Report to clear its deferral and variance account balances.

### **Submission**

Board staff suggests that the Board may wish to consider establishing a separate rate rider for the disposition of the global adjustment sub-account balance. The rate rider would apply prospectively to non-RPP customers, and would exclude the MUSH sector and other designated customers that were on RPP. Board staff submits that recovering the global adjustment sub-account balance solely from non-RPP customers would be more reflective of cost causality since it was that group of customers that were undercharged by the distributor in the first place. Board staff however notes that Brantford Power's current billing system could not readily accommodate that change. Board staff suggests that it would be useful to the Board were Brantford Power to review the Board's EB-2009-0405 Decision dated January 29, 2010 and provide comments in reply submission as to whether the approach for the disposition of the global adjustment contained in that Decision (i.e. implementation through an adjustment to the Provincial Benefit item on the bill) could be readily implemented by Brantford Power. The Board may wish to consider, as an alternative, to recover the allocated global adjustment sub-account balance from all customers in each class. This approach would recognize the customer migration that might occur both away from the non-RPP customer group and into the non-RPP customer group.

In addition to the decision on whether a separate rate rider should be established for the disposition of the global adjustment sub-account, the Board must decide on the time period over which the rate riders should apply. As previously noted, customer migration

might occur in the low volume group. For this group of customers, there would be a benefit to dispose of the global adjustment sub-account balance over a relatively short period of time in order to reduce inter-generational inequities. Board staff submits that a disposition period no longer than one year would be appropriate. These balances have been accumulating over the last four year period and to delay immediate action is not in the customer's best interest. Board staff recognizes that some volatility in electricity bills may result. That aside, Board staff believes that a one year disposition period would be in the interest of all parties.

In order to reduce inter-generational inequities, Board staff submits that the disposition period for all Group 1 accounts should not exceed one year.

The EDDVAR Report includes filing guidelines for the disposition of deferral and variance account balances. With respect to the reliability of account balances, the EDDVAR Report at page 27 states "...The Board believes that ...additional audit certification is not necessary. The Board however will require a distributor to file a reconciliation of the regulatory trial balance that is reported to the Board as part of RRR and the audited financial statements."

Board staff notes that the final proposed balances for disposition may no longer reconcile with previously audited balances nor with Brantford Power's RRR filings. Board staff has reviewed the balances and notes that the changes do not result in material differences. The majority of the changes made to the application are as a result of restating interest carrying charges. Board staff notes that Brantford Power stated in response to staff's interrogatory # 6d that Brantford Power has complied with the Board's accounting policies and procedures. Board staff is mindful of the importance of a timely disposition of deferral and variance account balances and does not believe that the disposition should be delayed. Board staff suggests that the Board consider approving the proposed deferral and variance account balance disposition rate riders on a final basis.

Board staff is unclear with respect to Brantford Power's disclosure that a component of the Account 1588 RSVA – Cost of Power would be attributable to the global adjustment for RPP customers. Board staff understands that in the calculation of the IESO monthly power bill that the distributor is responsible for calculating the global adjustment for RPP customers and that amount would be cleared with the IESO. What Board staff would

like to understand is whether Brantford Power has included in its reported 1588 RSVA – Cost of Power credit amount of \$1,690,345 any amounts for the global adjustment for RPP customers, and if so, what amount was included in this credit balance.

## **TREATMENT OF SMART METER FUNDING ADDER**

### **Background**

Brantford Power has a current Board-approved smart meter funding adder of \$1.00 per month per metered customer. In its application, Brantford Power is requesting an increase in its rate adder to \$2.07 per month per metered customer. Brantford Power is authorized for smart meter deployment under the amended Regulation pursuant to and in compliance with the London Hydro RFP process. In its application, Brantford Power filed supporting documentation in accordance with section 1.4 of the Smart Meter Guideline.

Brantford Power is not seeking approval for capital and operating costs incurred to date or in 2010 in this application, but will track actual costs, and revenues received from the funding adder, in the established deferral accounts for review and disposition in a subsequent application.

### **Submission**

Board staff submits that Brantford Power has complied with the policies and filing requirements of the Smart Meter Guideline. Actual smart meter expenditures will be subject to review when Brantford Power makes application for disposition of the account balances in a subsequent proceeding. Hence, Board staff takes no issue with Brantford Power's proposal to increase its smart meter funding adder to \$2.07 per month per metered customer.

## **ADJUSTMENTS TO THE REVENUE TO COST RATIOS**

### **Background**

The Board's Decision (EB-2007-0698) for Brantford Power's 2008 cost of service rate application prescribed a phase-in period to adjust revenue to cost ratios. The 2010 Supplemental Filing Module included schedules for Brantford Power to complete to address this matter. The process adjusts base distribution rates before the application of the price cap adjustment.

### **Submission**

Board staff submits that Brantford Power has complied with the filing requirements of the 2010 Supplemental Filing Module. Board staff takes no issue with Brantford Power's revenue to cost ratio adjustments.

## **ADJUSTMENTS TO THE RETAIL TRANSMISSION SERVICE RATES (RTSR)**

### **General Background**

Electricity transmitters in Ontario charge Uniform Transmission Rates (UTR) to their transmission connected customers. These UTRs are charged for network, line connection and transformation connection services. Based on the Decision and Rate Order of the Board in the EB-2008-0272 proceeding, the new UTRs effective July 1, 2009 were as follows:

- Network Service Rate was increased from \$2.57 to \$2.66 per kW per month, a 3.5% increase;
- Line Connection Service Rate remained unchanged at \$0.70 per kW per month; and
- Transformation Connection Service Rate was decreased from \$1.62 to \$1.57 per kW per month, for a combined Line and Transformation Connection Service Rates reduction of 2.2%.

On July 22, 2009 the Board issued an amended "Guideline for *Electricity Distribution Retail Transmission Service Rates*" ("RTSR Guideline"), which provided electricity distributors with instructions on the evidence needed, and the process to be used, to

adjust Retail Transmission Service Rates (“RTSRs”) to reflect the changes in the UTRs effective July 1, 2009. The Board set as a proxy at that time an increase of 3.5% for the Network Service Rate and reduction of 2.2% for the combined Line and Transformation Connection Service Rates. The Board also noted that there would be further changes to the UTRs in January 2010.

Based on the Decision and Rate Order of the Board in the EB-2008-0272 proceeding, a Rate Order issued January 21, 2010 revised the UTRs effective January 1, 2010 as follows:

- Network Service Rate has increased from \$2.66 to \$2.97 per kW per month, an 11.7% increase over the July 1, 2009 level or 15.6% over the rate in effect prior to July 1, 2009;
- Line Connection Service Rate has increased from \$0.70 to \$0.73 per kW per month; and
- Transformation Connection Service Rate has increased from \$1.57 to \$1.71 per kW per month, for a combined Line and Transformation Connection Service Rates increase of 7.5% over the July 1, 2009 level or 5.2% over the rate in effect prior to July 1, 2009.

### **Brantford Power Specific Background**

Brantford Power has applied for an adjustment to its RTSR rates based on the July 22, 2009 RTSR Guideline proxy rate adjustments.

### **Submission**

Board staff notes that very few distributors, including Brantford Power, included in their 2009 rates the July 1, 2009 level of UTRs since for most of them, distribution rates would have been implemented on May 1, 2009. Therefore, in accordance with the July 22, 2009 RTSR Guideline, Board staff submits that the revisions to the RTSRs ought to reflect the changes from the current level to the January 1, 2010 level, that is an increase of about 15.6% to the RTSR Network Service rate, and an increase of about 5.2% to the RTSR Line and Transformation Connection Service Rate.

Board staff has reviewed the evidence provided by the applicant and submits that the proposal by Brantford Power may no longer be reasonable, based on the January 1,

2010 level of the UTRs. Board staff submits that the applicant's proposed rates be revised to reflect the January 1, 2010 values.

## **ACCOUNTING FOR THE IMPLEMENTATION OF THE HARMONIZED SALES TAX**

### **General Background**

The Ontario provincial sales tax ("PST") (currently at 8%) and the Federal goods and services tax ("GST") (currently at 5%) will be harmonized effective July 1, 2010, at 13%, pursuant to Ontario Bill 218 which received Royal Assent on December 15, 2009.

The PST is currently an incremental cost applied to the price of goods purchased by an electricity distributor and is included in a distributor's OM&A expenses and capital expenditures. The PST is therefore included in the distributor's revenue requirement and is recovered from ratepayers through the application of distribution rates.

When the PST and GST are harmonized, distributors will pay the HST on purchased goods and service but will now claim an input tax credit for the PST portion. The mechanics of HST as a value added tax means that the distributor will no longer incur that portion of the tax that was formerly applied as PST (i.e. the 8%) on goods purchased. However, the current rates as applied will continue to effect cost recovery as if the PST was still in place. If no action is taken, the distributor will realize a savings in the cost of goods purchased while applying rates which do not reflect those savings.

### **Brantford Power Specific Background**

In response to Board staff interrogatory # 8a which asked if Brantford Power agrees that a deferral account should be established to capture the reductions in OM&A and capital expenditures, Brantford Power stated that PST is a commodity tax and not an income tax and it should not be given the same treatment with respect to rate adjustments. The Board has established clear rules that require distributors to capture differences in income tax rates or income tax rules resulting from legislative or regulatory changes and true them up with respect to taxes incorporated in rates; however, no such rules have been laid out with respect to changes in commodity taxes. Brantford Power also stated that capturing the reductions in OM&A and capital expenditures would impose a considerable administrative burden on them.

## Submission

Board staff notes that many distributors' comments on the administrative burden and costs of sales tax harmonization are at odds with the provincial and Federal governments' pronouncements regarding the stimulative and competitive results of harmonization. Because the costs and savings are not clear at this point, Board staff submits that tracking of these is warranted at this point to quantify, per government pronouncements, that the potential savings for corporations like Brantford Power could be significant. Accordingly, Board staff submits that the Board may wish to consider establishing a deferral account to record the amounts, after July 1, 2010 and until Brantford Power's next cost-of-service rebasing application, that were formerly incorporated as the 8% PST on capital expenditures and expenses incurred, but which will now be eligible for an HST Input Tax Credit ("ITC"). The intention of this account would be to track the incremental change due to the introduction of the HST that incorporates an ITC from the 5% to the 13% level. To qualify for this treatment, the cost of the subject items must be in the category of distribution revenue requirement. Tracking of these amounts would continue in the deferral account until Brantford Power's next cost of service application is determined by the Board or until the Board provides guidance on this matter, whichever occurs first.

Brantford Power would apply to clear the balance in the account as a credit to customers at the next opportunity for a rate change after the account balance information becomes available and is supported by audited financial statements.

All of which is respectfully submitted