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BY EMAIL

February 12, 2010

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: Board Staff Submission on COLLUS Power Corporation 2010 Electricity Distribution Rates Application Board File Number EB-2009-0220

Please see attached Board staff's submission for the above proceeding. Please forward the attached to COLLUS Power Corporation and all intervenors and observers in this proceeding.

COLLUS Power Corporation's reply submissions are due March 3, 2010.

Yours truly,

Original Signed by

Martin Benum
Advisor, Applications and Regulatory Audit

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2010 ELECTRICITY DISTRIBUTION RATES

COLLUS Power Corporation

EB-2009-0220

February 12, 2010

Board Staff Submission
COLLUS Power Corporation
2010 IRM3 Rate Application
EB-2009-0220

Introduction

COLLUS Power Corporation ("COLLUS") filed an application with the Ontario Energy Board (the "Board"), received on September 30, 2009, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that COLLUS charges for electricity distribution, to be effective May 1, 2010. The application is based on the 2010 3rd 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 COLLUS.

Board staff makes submissions on the following matters:

- Z-Factor Adjustment – Loss of Distribution Revenue;
- 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").

Z-FACTOR – LOSS OF DISTRIBUTION REVENUE

General Background

A) Z-Factor Treatment for 3rd Generation Incentive Regulation Mechanism

In Section 2.6 of the *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors dated July 14, 2008* (the "Board Report"), the Board noted that Z-factors are intended to provide for unforeseen events outside of management's control and stated: "In general, the cost to a distributor of these events must be material and its cost causation clear."[1]

The Board also stated the following:

> The Board expects that any application for a Z-factor will be accompanied by a clear demonstration that the management of the distributor could not have been able to plan and budget for the event and that the harm caused by extraordinary events is genuinely incremental to their experience or reasonable expectations.[2]

The 3GIRM Report states the eligibility criteria are sufficient to limit Z-factors to events genuinely external to the regulatory regime and beyond the control of management and the Board. The eligibility criteria are causation, materiality and prudence and are described in the Appendix to the 3GIRM Report (the "Appendix"). In order for amounts to be considered for recovery in the Z-factor, the amounts must satisfy all three criteria.[3]

The criteria are described as follows in the Appendix:

Causation	Amounts should be directly related to the Z-factor event. The amount must be clearly outside of the base upon which rates were derived.
Materiality	The amounts must exceed the Board-defined materiality threshold and have a significant influence on the operation of the distributor; otherwise they should be expensed in the normal course and addressed through organizational productivity improvements.
Prudence	The amount must have been prudently incurred. This means that the distributor's decision to incur the amount must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.[4]

1 Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, p. 34
2 Ibid., p. 37
3 Ibid., Appendix, p. IV.
4 3GIRM Report, Appendix, p. V

B) 2009 Cost-of-service Application

In its 2009 Cost of Service application (EB-2008-0226), COLLUS reported that it incurred a materially negative impact when its largest customer ceased operations in 2007. In order to avoid a similar impact going forward, COLLUS proposed a new variance account that would record the reduction in revenue in the event that the remaining large user customer ceased its operations. VECC submitted that the scenario appears to qualify for Z-factor consideration. VECC also noted that COLLUS expected new load growth and that the Board should look at overall load levels when adjustments are necessary in the event that the large user customer ceases operation. VECC submitted that the request should not be approved. Energy Probe concurred and stated that a variance account in the test year should not be allowed because it reduces risk to the utility without any reduction in costs to the ratepayers. Energy Probe noted that COLLUS did not see the need to adjust the load or revenue forecast in response to an interrogatory from Board staff. SEC'S submission was similar to VECC and Energy Probe. In its First Reply Submission, COLLUS withdrew its request that the Board approve the new variance account."[5]

COLLUS Specific Background

In this application, COLLUS requested a Z-Factor adjustment on the grounds that its Large Use customer ("the Subject Customer") requested to be re-classified as GS>50kW. On September 25, 2009, pursuant to section 2.5.4 of the Distribution System Code ("DSC"), the Subject Customer provided a written request to be re-classified in the GS>50 kW. Section 2.5.4 of the DSC (last revised on October 21, 2009) states that "A distributor shall review a non-residential customer's rate classification upon being requested to do so by the customer at any time if the customer's demand falls outside the upper or lower limits applicable to the customer's current rate classification for a period of five consecutive months." Based on the Subject Customer's request, and the actual historical load, the customer qualified to be reclassified to the GS>50 kW customer class effective November 1, 2009.

COLLUS has requested that the Board consider providing relief for the loss of distribution revenue resulting from this event. COLLUS is specifically requesting that a rate rider be established to recover $687,314 over a three year period from May 1, 2010

5 EB-2008-0226 Decision and Order, pages 28-29.

to April 30, 2013. This amount includes projected distribution revenue losses from November 1, 2009 to April 30, 2010 as well losses anticipated during the IR plan term. For the November 1, 2009 to April 30, 2010 period, COLLUS estimated a revenue loss of $66,410. During the IR plan term, COLLUS estimated an annual revenue loss of $181,768. COLLUS also indicated that as a result of the re-classification to the GS>50 kW rate class, the Transformer Ownership Allowance ("TOA") would now be applicable whereas formerly as a Large Use customer it did not. COLLUS therefore requested relief for an additional amount of $25,200 per annum.

In response to Board staff interrogatory #1, COLLUS confirmed that Table 1 "correctly summarizes the Total Revenue Loss we are requesting to be recovered in our application."

Table 1

Summary of COLLUS Claim

From	To	**Stub Period**	**Annual**	**TOA**	**Total**
November 1, 2009	April 30, 2010	$ 66,410			$ 66,410
May 1, 2010	April 30, 2011		$181,768	$25,200	$206,968
May 1, 2011	April 30, 2012		$181,768	$25,200	$206,968
May 1, 2012	April 30, 2013		$181,768	$25,200	$206,968
		$ 66,410	$545,304	$75,600	**$687,314**

In support of its Z-factor treatment claim, COLLUS indicated that:

- the reduction of load by the Subject Customer and the resulting reduction in distribution revenue is a single event clearly outside of the Large User load base upon which rates for 2009 and the 3GIRM period have been set;

- on the basis of its re-based 2009 revenue requirement of $5,753,785, its materiality threshold is $50,000. This materiality threshold has been exceeded not only in the current rate year but will be exceeded in each of the remaining three IRM3 years;

- it must continue to utilize the same distribution service infrastructure, metering, and billing processes to service the Subject Customer as a GS>50 kW customer as it would if they were still in the Large User rate classification;

- it requires the revenue loss that it proposes to be recovered in order to ensure that the required finances are provided to make the approved investment in capital, operation and maintenance approved in our 2009 rate application; and

- no prudent steps within its ability that could have changed the outcome of the customers load reduction. COLLUS submits that the situation was unforeseen when 2009 rates were established and approved by the Board.

Board staff Interrogatory #4b requested that COLLUS identify what capital or operating programs would suffer or be foregone if the lost revenues were not recovered. COLLUS responded that:

> "COLLUS Power submits that there is no discretionary spending room in the 2009 Board approved revenue requirement. As determined in the Board's Decision and Order dated April 17, 2009, regarding our 2009 Cost of Service application, specific costs reductions were imposed on required Operation, Maintenance and Administration expenses. Tree-trimming cost, inflation factor and rebase cost recovery were reduced by a total of $80,000 annually. COLLUS Power is attempting to meet its operational requirements in spite of this decision, it cannot in addition lose a material amount of its' approved revenue requirement. In regards to programs that may be impacted, since the annual amount is approximately $230,000 per year, it would be impossible to make alterations to plans without negative impact on operations and capital projects. Further borrowing would be required if the revenues are not recovered and this will only serve to further limit our ability to follow the requirements of the Board resulting from the Green Energy Act as it pertains to supporting renewable generation, implementing Smart Grid initiatives and completing our Smart Meter/TOU implementation plans.
>
> Potential capital project planned spending that may have to be curtailed would include the following projects:
>
> - 2010 Distribution Plant Construction: Peel St (Ontario 220 St. to Hume St.)
> - 2011 Distribution Plant Construction: MS#9 Feeder (Oak St. to 9th St)

- 2012 Distribution Station Construction: Pole Line (Creemore Station)

The impact of curtailing these projects would definitely affect potential reliability of service to the areas these projects were targeted to provide reliable supply to."

Submission

Board staff first observes that in *Chapter 3 of the Filing Requirements for Transmission and Distribution Applications, Incentive Regulation Mechanisms for Annual Rate Adjustments (Updated July 22, 2009),* the Board determined that the IRM process was not the appropriate venue by which a distributor should seek relief on issues which are substantially unique to an individual distributor or more complicated and potentially contentious. Specific exclusions identified by the Board included the loss of customer load. The Board indicated that exclusions form the IRM process are to be addressed in the distributor's next cost of service application.

Board staff further notes that the Board's requirement to record amounts related to Z-factor events in account 1572, and the Board's practice to confirm any amounts proposed for disposition in deferral or variance accounts with the applicant's audited financial statements, suggest that the Z-Factor guidelines do not apply to forward-looking recoveries and that the Board has not previously approved such a recovery.

Board staff also notes that the 3GIRM Report characterizes Z-Factor events as those "genuinely external to the regulatory regime and beyond the control of management and the Board." Board staff suggests that customer additions and losses, as well as customer re-classifications are an ongoing part of normal utility operations, and as such, could not be characterized per se as being external to the regulatory regime. However, Board staff is of the view that if the loss of revenue from a particular customer could be shown to have an impact on the utility significant enough to be considered a financial impairment, it could qualify as being genuinely external to the regulatory regime.

Financial Impairment: Basis for Recovery

COLLUS filed evidence on the financial impact it expects to experience as a result of this customer reclassification and associated revenue loss. What remains uncertain is if the degree of financial impairment COLLUS estimates would be of such a magnitude that it could genuinely be considered external to the normal regulatory regime where utilities experience revenue loss at times along with revenue excesses at other times.

Board staff suggests that section 2.7 of the Board's Report provides some guidance as to what would constitute financial impairment:

> "The Board has determined that the 3rd Generation IR plan will include a trigger mechanism with an annual ROE dead band of ±300 basis points. When a distributor performs outside of this earnings dead band, a regulatory review may be initiated."

The following table is extracted from COLLUS' 2009 Revenue Requirement Workform showing the calculation of COLLUS's Return on Equity. Board staff notes that at the time that this information was filed, COLLUS' Common Equity thickness was 43.3% and rate base was $16.3 million. The 2009 deemed return on equity was calculated at 8.01% resulting in COLLUS being allocated $564,965 return on equity (ROE).

	(%)	($)	(%)	
Debt				
Long-term Debt	52.70%	$8,584,431	7.62%	$654,134
Short-term Debt	4.00%	$651,570	1.33%	$8,666
Total Debt	56.70%	$9,236,001	7.18%	$662,800
Equity				
Common Equity	43.3%	$7,053,242	8.01%	$564,965
Preferred Shares	0.0%	$ -	0.00%	$ -
Total Equity	43.3%	$7,053,242	8.01%	$564,965
Total	100%	$16,289,243	7.54%	$1,227,764

COLLUS has calculated the annual revenue loss to be $181,768. Board staff submits that this loss in revenue would lower COLLUS' ROE resulting in COLLUS realizing $373,197 in return ($564,965 less $181,768). This would reduce the ROE to 5.4%

($373,197 divided by $7,053,242). This is a reduction of 2.5% (8.01% less 5.4%), which falls within the ROE dead band of +/- 3%.

Staff does not believe that COLLUS has demonstrated that the degree of financial impairment is genuinely external to the normal regulatory regime and accordingly, in staff's view, COLLUS has failed to establish that a Z-factor event has occurred.

<u>Z-Factor Recoveries: Basis for Recovery</u>

If the Board does accept that a Z-factor has occurred, it must find that each of the criteria for causation, materiality and prudence set out in the Board Report have been met.

Board staff's assessment as to whether or not COLLUS has met each of the Board's criteria for Z-factor adjustments is as follows:

Materiality:

Board staff accepts that the revenue losses attributable to the Subject Customer exceed COLLUS's materiality criterion.

Causation:

COLLUS stated in its Manager's Summary "that the reduction of load by the customer and the resulting reduction in distribution revenue is a single event clearly outside of the Large User load base upon which rates for 2009 and the 3GIRM period have been set."

Board Staff is in agreement with COLLUS that the loss of revenue from the Subject Customer is outside the Large User load base upon which rates for 2009 have been set. However, this criterion makes reference to amounts that are directly related to the Z-factor event. Board staff is of the view that a Z-factor event has not occurred and, as such, this criterion has not been met.

Prudence:

While Board staff submits that the applicability of this criterion to revenue losses may be unclear, there is no evidence on the record in this proceeding which would suggest that imprudent actions by COLLUS led to the loss of revenues from the customer.

Conclusion

As previously noted, Staff does not believe that COLLUS has demonstrated that the Subject Customer re-classification is genuinely external to the normal regulatory regime and accordingly, in staff's view, COLLUS has failed to establish that a Z-factor event has occurred.

Based on the above, Board staff suggests that the Board may wish to consider denying COLLUS request for recovery of $66,140 from November 1, 2009 to April 30, 2010 and $181,768 per year from May 1, 2010 to April 30, 2013.

Board staff is also unclear whether the requested TOA of $25,200 per annum should have been included in the relief sought since it would be staff's understanding that the rates under the GS>50 kW rate class would include an allocation of COLLUS" transformers costs. Therefore COLLUS would generate additional revenue by virtue of adding load to the GS> 50 kW rate class that would in turn be offset by the TOA remitted by COLLUS to the Subject Customer. Board staff suggests it may be helpful to the Board were COLLUS to provide additional information as to why the TOA amounts should be considered.

POTENTIAL TAX SHARING RATE RIDER

General Background

The Supplemental Report of the Board on 3rd 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.

COLLUS Specific Background

Using the Board's Supplemental Filing module COLLUS's Tax Sharing amount is a refund of $2,265. This amount when unitized using COLLUS'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 $2,265 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 COLLUS to record the Tax Sharing refund amount of $2,265 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.

COLLUS Specific Background

Annual Disposition

COLLUS has requested the disposition of its Group 1 account balance over a four year period. Board staff interrogatory #15 requested that COLLUS complete and submit an updated version 4 of the Deferral Variance Account Workform. COLLUS has complied with this request.

Global Adjustment

In response to Board staff interrogatory # 11a, COLLUS stated it had reviewed the Regulatory Audit & Accounting Bulletin 200901 and confirmed that it had accounted for its Account 1588 RSVA power and global adjustment sub-account in accordance with this Bulletin. In response to Board staff interrogatory #11b, COLLUS confirmed that it has 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.

In response to Board staff interrogatory #12a, COLLUS 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. COLLUS however noted that:

> "COLLUS understands the goal of Board Staff is to provide fairness to all customer classes and is pleased to see that in general, it is understood that it is difficult to separate rate adjustments to customers within a rate class.
>
> The question of fairness in the disposition of the variance account related to Non-RPP consumers is a complex one as it typically begins with the assumption that all customers in the sub-group of the rate class are equitably responsible for the growth of that particular variance account. In respect of those customers who are

in the General Service class >50, it is fairly accurate to assume that those customers would be billed on Non-RPP rates and therefore contributing to GA charges regardless of whether they are enrolled with a Retailer, or paying the market rates directly. In the case of the Residential class, only those customers who have signed with a Retailer would have been responsible for any variances related to the GA charges. The concept of fairness is weighted on the premise that those responsible should benefit (or in this case pay) for their specific share of the costs related to the balance in the associated variance account.

Given that in the majority of cases, as noted above, the customers in the General Service >50 class were “responsible” for the GA rate and the resulting variance regardless of if they had a Retailer account or not, it can be assumed that the entire class can be treated fairly for the period from 2005 through to the end of 2008 if the associated GA account variance is applied to the entire class.

In the case of the Residential class, the following situations arise:

1. Only those customers enrolled with Retailers during the four year period between them beginning of 2005 and the end of 2008 would have contributed to the residential share of the GA variance account.
2. Most customers enrolled in May of 2002 had 5 year contracts which expired at some point in 2007.
3. Only some customers extended their contracts following contract end date.
4. Consumers that dropped their enrolment with Retailers during the period between 2005 and 2008 are on RPP today and would not therefore be allocated their “fair” share of the variance account balances.
5. Many customers enrolled today, enrolled during 2009 and as such were not part of the sub-group of residential customers that contributed to the accumulation of the variance account.
6. The variance account changed from a positive value to a negative value during different periods of time through the affected period.

Given the constantly changing number of customers in the Residential class enrolled with Retailers and the fact that the variance account changed from a positive value to a negative value at different periods of time during the years

> between 2005 and 2008, it would be difficult to apply a "fairness" principal to the entire group without allocating the proper amount of the variance account to the specific consumers for only the period that they were contributing to the growth or shrinkage of the variance."

In response to Board staff interrogatory #12b, COLLUS stated that it would have the billing capability to have a separate rate rider applicable to non-RPP customers to dispose of the global adjustment sub-account balance. COLLUS however indicated that:

> "COLLUS has reviewed the existing capabilities of their billing system, and in the course of the review has identified that establishing a separate rate rider for disposition of the GA variance account could be done on a class by class basis as the rate rider could be added to the "distribution fixed charge" or the "distribution variable charge" of the consumer.
>
> The current rate classifications established during the Cost of Service process did not adequately recognize the additional costs associated with managing retailer accounts, nor provide a method for allocating a separate charge to the consumer for those incremental account management costs. As such, COLLUS does not have a specific charge to which one could apply a new variance account disposition that clearly separates the Residential "enrolled" customer vs. a Residential "RPP" customer. Board staff noted this as "sub classes within a rate class".
>
> Discussions with our current software supplier identified that a new rate could be established, however applying this new rate rider to a sub-class of the residential customer group has not been tested and as with most billing system modifications would likely be costly. Additionally, as noted in answer 12 a), the question of which enrolled customer should be required to pay back the variance balance would be difficult to track given that many of the customers responsible for the growth of the variance account balance are no longer enrolled with Retailers, and others that have enrolled over the past 12 months were not responsible for the accumulation of any related debt.
>
> COLLUS Power would also suggest that the collection of the cost associated with making the necessary billing changes should be addressed if the proposal is

> implemented. Perhaps the appropriate methodology would be a variance account that tracks the associated costs for future rate recovery.
>
> COLLUS suggests that the entire GA variance be collected from the >50 customer class through a specific rate adder over a four year period. COLLUS also proposes that the Board may wish to undertake a review to see if it would be plausible to establish a charge (or credit) for customers returning to Regulated Rates (either RPP or TOU) similar to the current charge (or credit) applied to customer accounts when they leave the Regulated Rate plan to enroll with a Retailer. If designed properly this type of exit settlement would ensure that in the future those responsible for variance accounts related to GA were the ones paying or receiving credit appropriately.
>
> A further option would be for the IESO to review the previous months variances created by LDC's using the "Fixed GA rate for Customer Billing" as determined by the IESO and the actual GA costs allocated to LDC charges on line 146 of the IESO invoices. Following the review, the IESO could incorporate an adjustment to the following months "Fixed GA Rate" to mitigate the impact of the previous month's variance. This would be similar in concept to how the Board reviews rates every six months only in that the IESO would be reviewing just the one single component on a monthly basis."

COLLUS 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 $3,074,499. The balance in the 1588 global adjustment sub-account is a debit of $162,455. COLLUS 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.

COLLUS did not address 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

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. 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 notes that COLLUS's current billing system would be capable to effect such a change, but incremental costs may be incurred.

The Board may also wish to consider, as suggested by COLLUS, to dispose of the global adjustment sub-account balance to the General Service >50 class.

Alternatively, the Board may wish to consider the recovery of 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.

Board staff notes that the final proposed balances for disposition may no longer reconcile with previously audited balances nor with COLLUS's RRR filings. Board staff has reviewed the balances and notes that the changes do not result in material differences. Board staff notes that COLLUS stated in response to staff's interrogatory #15c that COLLUS 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.

TREATMENT OF SMART METER FUNDING ADDER

Background

COLLUS has a current Board-approved smart meter funding adder of $1.00 per month per metered customer. In its application, COLLUS is requesting an increase in its rate adder to $2.00 per month per metered customer. COLLUS filed evidence in accordance with section 1.4 of the *Guideline G-2008-0002: Smart Meter Funding and Cost Recovery (the "Smart Meter Guideline")*, issued October 22, 2008. COLLUS is authorized for smart meter deployment under the amended Regulation pursuant to and in compliance with the London Hydro RFP process.

COLLUS 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 COLLUS has complied with the policies and filing requirements of the Smart Meter Guideline. Actual smart meter expenditures will be subject to review when COLLUS makes application for disposition of the account balances in a subsequent proceeding. Hence, Board staff takes no issue with COLLUS's proposal to increase its smart meter funding adder to $2.00 per month per metered customer.

ADJUSTMENTS TO THE REVENUE TO COST RATIOS

Background

The Board's Decision (EB-2008-0226) for COLLUS's 2009 cost of service rate application prescribed a phase-in period to adjust revenue to cost ratios. The 2010 Supplemental Filing Module included schedules for COLLUS 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 COLLUS has complied with the filing requirements of the 2010 Supplemental Filing Module. Board staff takes no issue with COLLUS'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 charges 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.

COLLUS Specific Background

COLLUS 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 COLLUS, 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 COLLUS 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.

Submission

Board staff suggests that 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 COLLUS 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 COLLUS'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 COLLUS's next cost of service application is determined by the Board or until the Board provides guidance on this matter, whichever occurs first.

COLLUS 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