Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2009 ELECTRICITY DISTRIBUTION RATES

Oshawa PUC Networks Inc.

EB-2008-0205

January 30, 2009

INTRODUCTION

Oshawa PUC Networks Inc. ("Oshawa") submitted an application on November 7, 2008, seeking approval for changes to the rates that Oshawa charges for electricity distribution, to be effective May 1, 2009. The application is based on the 3rd Generation Incentive Regulation Mechanism ("3rd Gen. IRM").

The purpose of this document is to provide the Ontario Energy Board (the "Board") with the submissions of Board staff after its review of all the evidence submitted by Oshawa for the standard IRM application and requests regarding recovery of Lost Revenue Adjustment Mechanism (LRAM) and Shared Savings Mechanism (SSM) amounts ("Part I" of the application).

REVENUE TO COST RATIO ADJUSTMENTS

Background

For the purpose of calculating the revenue-to-cost ratio adjustments, the 3rd Gen. IRM Supplementary Filing Module (the "IRM Module") allocates the low voltage charges and transformer allowance "costs" across rate classes in a way that may differ from how they were allocated in Oshawa's 2008 cost of service application ("2008 CoS").

Discussion and Submission

As a result of the difference in methodology employed in the IRM Module as compared to the methodology used in the 2008 CoS, there may be a slight difference in the calculated revenue-to-cost ratios (the "Ratios") and the proposed adjustments that would result under each method. Board staff submits that this difference is immaterial and that Oshawa's proposed revenue-to-cost ratio adjustments are reasonable and in compliance with its 2008 cost of service Decision (EB-2007-0710).

Board staff notes that the *Report of the Board on the Application of Cost Allocation for Electricity Distributors* dated November 28, 2007 (the "Report") indicated that a range approach for ratios was preferable given influencing factors, such as data quality. Accordingly, Board staff submits that the differences in the ratios calculated in the IRM Module and under the 2008 CoS methodology would need to be material for a revision to the proposed revenue-to-cost ratio adjustments to be warranted at this time. As stated earlier, Board staff submits that those differences are immaterial.

Board staff would like to inform interested parties that the IRM Module will be adjusted next year to enable distributors to reflect how the low voltage charges and transformer allowance "costs" were allocated for the purpose of calculating their Ratios in their 2008 CoS. Accordingly, any differences in the calculation of the ratios in the 2009 IRM Module will be reverted in the 2010 IRM Module next year.

RETAIL TRANSMISSION SERVICE RATES (RTSR)

Background

In Board staff interrogatory number 4, Board staff noted that Oshawa proposed to increase its RTSR – Network Service Rates by 11.3% and its RTSR – Line and Transformation Connection Service Rates by 19.2% and requested a detailed explanation on how the proposed adjustments were calculated.

Oshawa stated that it used the approved rate model in compliance with Guideline G-2008-0001, *Electricity Distribution Retail Transmission Service Rates* issued on October 22, 2008, but provided no further details.

Submission

While Board staff appreciates that Oshawa has made the proposed RTSR adjustments using the 2009 3rd Gen. IRM Rate Generator model, Board staff notes that no calculation was provided to support the percentage changes entered in cell D22 of Sheet L1.1 and L2.1. Board staff submits that it is difficult to determine whether the proposed percentage changes are appropriate without the detailed calculation supporting them.

In particular, Board staff finds that the proposed RTSR – Line and Transformation Connection Service Rates increase of 19.2% is large compared to the proposed adjustments submitted by most other distributors. Oshawa has not provided a detailed calculation for how this number was obtained.

PAYMENT IN LIEU OF TAXES (PILs)

Background

On December 13, 2007, the Ontario government introduced its 2007 Ontario Economic Outlook and Fiscal Review. Bill 44, the enabling legislation, received Royal Assent on May 14, 2008, and was promulgated in The Ontario Gazette on May 24, 2008. The resulting tax changes affecting the electricity distributors are listed below:

<u>Effective January 1, 2007</u>

Small Business Credit
- Threshold increased from $400,000 to $500,000
- Claw-back rate decreased from 4.67% to 4.25%

Ontario Capital Tax
- Reduced from 0.285% to 0.225%
- Deduction increased from $10,000,000 to $12,500,000

<u>Effective January 1, 2008</u>

Ontario Capital Tax
- Deduction increased from $12,500,000 to $15,000,000

The Board's Decision in Oshawa's 2008 CoS application (EB-2007-0710) was issued on March 19, 2008, prior to Bill 44 being enacted. Accordingly, Oshawa's revenue requirement was calculated on the tax rates that existed prior to the enactment of Bill 44.

Discussion and Submission

Board staff notes that some 2008 CoS proceedings required more time to process than others. As a result, some applications that were filed with the Board at around the same time as Oshawa filed its 2008 CoS application had their Decisions issued after May 24, 2008, with their resulting electricity distribution rates reflecting the lower tax rates. Board staff submits that for consistency and fairness across electricity distributors, the difference in PILs Oshawa is collecting in its distribution rates as a result of its 2008 CoS Decision having been issued before May 24, 2008, should be removed as of May 1, 2009. Board staff also submits that the additional amounts Oshawa collected in the 2008 rate year should remain with Oshawa, as it appropriately reflected the Board Decision (EB-2007-0710) for that rate year.

In Board staff's submission, Oshawa's distribution rates should be adjusted to reduce the revenues collected by $28,954. This amount corresponds to the difference between the $137,534 provision for Ontario capital taxes included in Oshawa's distribution rates (as calculated on page 12 of Oshawa's 2008 CoS rate order submission dated May 5, 2008) and $108,580 (the Ontario capital tax amount calculated in cell E128 of Sheet F1.1 of the IRM Module). This difference is the result of changes to the Ontario capital tax provisions only; the small business credit provision changes did not affect Oshawa's total PILs.

Board staff asks the applicant to respond to staff's proposed adjustment of $28,954 to its distribution rates. Board staff also invites the applicant to contact Board staff for assistance in reflecting this proposed change in Oshawa's Excel models, if it agrees to the proposed adjustment.

Board staff's proposed adjustment of $28,954 is in addition to the tax sharing required from the reduction in the federal tax rate from 19.5% to 19% effective January 1, 2009. As calculated in cell G48 of Sheet F1.1 of the IRM Module, this tax savings will amount to $36,436, with half to be returned to customers through a rate rider.

All of which is respectfully submitted.