



ONTARIO ENERGY BOARD

SUPPLEMENTAL STAFF SUBMISSION

2009 ELECTRICITY DISTRIBUTION RATES

Barrie Hydro Distribution Inc.

EB-2008-0160

February 2, 2009

INTRODUCTION

Barrie Hydro Distribution Inc. ("Barrie Hydro") submitted an application on November 6, 2008, seeking approval for changes to the rates that Barrie Hydro 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 based on its review of all the evidence submitted by Barrie Hydro. This submission is in addition to the Board staff submission dated January 26, 2009.

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:

Effective January 1, 2007

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

Effective January 1, 2008

Ontario Capital Tax

- Deduction increased from \$12,500,000 to \$15,000,000

The Board's Decision in EB-2007-0746, Barrie Hydro's 2008 cost of service application ("2008 CoS"), was issued on March 25, 2008, prior to Bill 44 being enacted. Accordingly, Barrie Hydro'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 Barrie Hydro 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 Barrie Hydro 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 Barrie Hydro collected in the 2008 rate year should remain with Barrie Hydro, as it appropriately reflected the Board Decision (EB-2007-0746) for that rate year.

In Board staff's submission, Barrie Hydro's distribution rates should be adjusted to reduce the revenues collected by \$80,912. This amount corresponds to the difference between the \$384,333 provision for Ontario capital taxes included in Barrie Hydro's distribution rates (as calculated on page 5 of Appendix 1 of Barrie Hydro's 2008 CoS rate order submission dated April 7, 2008) and \$303,421 (the Ontario capital tax amount calculated as it should appeared in cell E128 of Sheet F1.1 of the 3rd Gen. IRM Supplementary Filing Module). This difference is the result of changes to the Ontario capital tax provisions only; the small business credit provision changes did not affect Barrie Hydro's total PILs.

Board Staff would like to note an entry error Barrie Hydro made in cell E122 of Sheet F1.1 of the 3rd Gen. IRM Supplementary Filing Module (the "IRM Module"): the \$15,000,000 deduction has been added to the taxable capital amount instead of being subtracted. Once corrected, the net taxable capital amount in cell E128 of Sheet F1.1 of the IRM Module should be \$303,421 instead of \$370,921.

For ease of reference, the table below details the corrected calculation of the 2008 Ontario capital tax performed in the 2009 3rd Gen. IRM Supplementary Filing Module.

Barrie's Ontario Capital Tax Following the Enactment of Bill 44

Item	Description	Reference	Amount / %
(1)	Taxable capital	EB-2007-0746	\$149,853,574
(2)	Deduction from taxable capital	\$15,000,000	-\$15,000,000
(3)	Net taxable capital		<u>\$134,853,574</u>
(4)	2008 Ontario capital tax	(3) * 0.225%	\$303,421

Board staff asks the applicant to respond to staff's proposed reduction of \$80,912 to the revenues collected by its distribution rates. Board staff also invites the applicant to contact Board staff for assistance in reflecting this proposed change in Barrie Hydro's Excel models, if it agrees to the proposed adjustment.

Board staff's proposed adjustment of \$80,912 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 G148 of Sheet F1.1 of the IRM Module, this tax savings will amount to \$57,625 with half to be returned to customers through a rate rider.

All of which is respectfully submitted.