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BY E-MAIL

February 2, 2009

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

Dear Ms. Walli:

Re: **Orangeville Hydro Limited / Grand Valley Energy Inc.**
2009 Incentive Regulation Mechanism (2009 IRM) Rate Application
Board File Number EB-2008-0204 / EB-2008-0177

Please find attached Board Staff Submission in the above proceeding. Please forward the attached documents to Orangeville Hydro Limited / Grand Valley Energy Inc. and all other parties in this proceeding. In addition please advise Orangeville Hydro Limited / Grand Valley Energy Inc. that responses to the submissions are required to be filed by the 17th of February, 2009.

Yours truly,

Original Signed By

Martin Benum
Advisor

Encl.

Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2009 ELECTRICITY DISTRIBUTION RATES

Orangeville Hydro Limited
Grand Valley Energy Inc.

EB-2008-0204
EB-2008-0177

February 2, 2009

INTRODUCTION

Orangeville Hydro Limited ("OHL") and Grand Valley Energy Inc. ("GVEI") submitted their application on November 6, 2008 seeking approval for changes to the rates they charge for electricity distribution, to be effective May 1, 2009. The application is based on the 2009 Incentive Regulation Mechanism ("IRM"). On December 23, 2008, Board Staff filed interrogatories. On January 12, 2009, OHL and GVEI responded to these interrogatories.

The purpose of this document is to provide the Ontario Energy Board (the "Board") with the submissions of Board staff after its review of the evidence submitted by OHL and GVEI.

Utility Amalgamation and Rate Harmonization

Background

On February 21, 2008, OHL and GVEI jointly filed an application with the Ontario Energy Board seeking leave to amalgamate. The MADD's Decision and Order EB-2008-0053 (July 14, 2008) granted them leave to amalgamate. In a letter to the Board dated January 20, 2009 OHL confirmed the completion of the amalgamation effective January 1, 2009.

Discussion and Submission

Early Rate Harmonization

Included in the IRM applications is a request to harmonize the rates of the two distributors. Board staff interrogatory Question #3 identified that OHL MAAD's application stated that the amalgamated companies would retain their respective rate schedules for customers in each of the service areas and apply for rate harmonization in 2010. Board staff inquired why the rate harmonization was accelerated to 2009. OHL responded that they did not want to complicate the 2010 cost of service application, felt that it would reduce rate shock and assist in smoothing out future revenue-to-cost ratios adjustments.

Rate Harmonization – Billing Determinants

Board staff notes that for the rate harmonization calculations, OHL used the 2007 RRR billing determinants in contrast to the 2006 EDR billing determinants. While the Board does not have a prescribed practice for rate harmonization, past practice has been to use the billing determinants underpinning base rates, which would be the 2006 EDR values. Board staff reviewed both methods of calculation and concluded that there is no material difference between the two methods. However it is noted that the 2007 billing determinants reduce the rate impact for GVEI's residential customers.

Rate Harmonization – Significant Impacts

Board staff reviewed the proposed rate harmonization and identified two rate classes in GVEI's service area that would significantly be affected by the proposed rate harmonization plan. In interrogatory #1, Board Staff observed that the 7 General Service 50 to 4,999 kW class customers would realise a rate reduction resulting in an overall $16,998 (38%) distribution cost savings in 2009. The Streetlights rate class would realise a $2,926 (87%) distribution cost savings. OHL replied that the proposed rates for the General Service 50 to 4,999 kW would bring the revenue-to-cost ratio closer to unity. OHL acknowledged that the rates proposed for the Streetlights rate class may fluctuate from 2009 to 2010 as a result of expected adjustments to the revenue-to-cost ratios. However OHL mentioned that the proposed harmonized rates maintain revenue neutrality at the rate class level.

In contrast, OHL's Streetlights rate class customers would realise a distribution cost increase of $2,931 (72%). OHL identified that at present, the revenue-to-cost ratio for this rate class is 4.42%. The proposed increase resulting from the rate harmonization would increase this revenue-to-cost ratio. Board staff notes that the total bill impact resulting from this proposed increase will not exceed 10%, and that a rate mitigation plan does not appear to be required.

Elimination of General Service – Time of Use

OHL did not enter into the IRM Rate Generator the rate class General Service 50 to 4,999 kW – Time of Use. In addition, OHL did not address the discontinuation of this rate class in their Manager's Summary. In its response to Board staff interrogatory #2 OHL confirmed their proposal to discontinue this rate class and stated that this is a legacy rate classification which includes only 3 customers. OHL proposes that these 3 customers be included in the General Service 50 to 4,999 kW rate class. OHL noted that this proposal would improve the revenue-to-cost ratio for this rate class. OHL also indicated that this would not affect any other rate classes. What remains unclear is whether OHL has considered the materiality of the impact of the loss in revenue from eliminating this rate class. Board staff tested the rate change of this rate class using billing determinants from the 2006 EDR. By charging this class the General Service 50 to 4,999 kW rate, staff noted that the rate class revenue would decline by $67k. Staff would invite all parties to this proceeding to comment on this issue.

Loss Factor

OHL has proposed that the merged loss factor be OHL's current approved loss factor of 1.0406 instead of GVEI's higher loss factor of 1.0612. Staff notes that this proposal is not revenue neutral. This would result in a reduction to commodity costs for all GVEI's customers. However staff expects that the application of a lower loss factor for the GVEI would have an immaterial impact on the merged OHL. Additionally, Account 1588 captures the difference between forecast and actual losses. Staff invites all parties to this proceeding to comment on this issue.

Retail Transmission Network and connection Rates ("RTS Rates")

OHL proposed that OHL's RTS Rates be applied to the merged OHL. OHL stated that this change would offset the balances in Account 1584 and 1586 caused by GVEI current RTS Rates. Staff notes that at the end of 2007 the combined GVEI variance accounts are in a credit balance of $56k. It remains unclear how OHL intends to handle the variance accounts and the potential debits and credits which belong to the GVEI customers. Staff invites all parties to this proceeding to comment on this issue.

All of which is respectfully submitted.