



ONTARIO ENERGY BOARD

SUPPLEMENTAL STAFF SUBMISSION

2009 ELECTRICITY DISTRIBUTION RATES

Halton Hills Hydro Inc.

EB-2008-0182

February 2, 2009

INTRODUCTION

Halton Hills Hydro Inc. ("Halton Hills") submitted an application on November 7, 2008, seeking approval for changes to the rates that Halton Hills 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 Halton Hills. This submission is in addition to the Board staff submission dated January 23, 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-2007-0696, Halton Hills' 2008 cost of service application ("2008 CoS"), was issued on March 27, 2008, prior to Bill 44 being enacted. Accordingly, Halton Hills' 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 Halton Hills 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 Halton Hills 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 Halton Hills collected in the 2008 rate year should remain with Halton Hills, as it appropriately reflected the Board Decision (EB-2007-0696) for that rate year.

In Board staff's submission, Halton Hills' distribution rates should be adjusted to reduce the revenues collected by \$28,263. This amount corresponds to the difference between \$605,131 (the PILs calculated on page 6 of Halton Hills' 2008 CoS draft rate order submission dated April 25, 2008) and \$576,868 (the PILs calculated in cell E137 of Sheet F1.1 of the 2009 3rd Gen. IRM Supplementary Filing Module). This difference is the result of changes to the small business credit provisions. For ease of reference, Table 1 details the calculation performed in the 2009 3rd Gen. IRM Supplementary Filing Module.

Table 1 – Halton Hills' Grossed-up 2008 PILs Following the Enactment of Bill 44

Item	Description	Reference	Amount / %	PILs
(1)	2008 CoS Taxable Income	EB-2007-0696	<u>\$1,201,231</u>	
<u>Ontario Taxes</u>				
(2)	Income tax payable	(1) * 14%	\$168,172	
(3)	Small business credit	-\$500,000 * 8.5%	-\$42,500	
(4)	Surtax	[(1) - \$500,000] * 4.25%	<u>\$29,802</u>	
(5)	Ontario Income tax		<u>\$155,475</u>	
<u>Combined 2008 Tax Rate and PILs</u>				
(6)	Effective Ontario Tax Rate	(5)/(1)	12.94%	
(7)	Federal tax rate in 2008		<u>19.50%</u>	
(8)	Combined tax rate		<u>32.44%</u>	
(9)	PILs	(1) X (8)		\$389,715
(10)	Grossed-up PILs	(9) / (1 - (8))		<u>\$576,868</u>

Board staff also submits that Halton Hills' distribution rates should be further adjusted to reduce the revenues collected by \$13,626. This amount corresponds to the difference between \$64,723 (the Ontario capital tax calculated on page 3 of Halton Hills' 2008 CoS draft rate order submission dated April 10, 2008) and \$51,097 (the Ontario capital tax calculated in cell E128 of Sheet F1.1 of the 2009 3rd Gen. IRM Supplementary Filing Module). This difference is the result of changes to the Ontario capital tax provisions. For ease of reference, Table 2 below details the calculation performed in the 2009 3rd Gen. IRM Supplementary Filing Module.

Table 2 – Halton Hills' Ontario Capital Tax Following the Enactment of Bill 44

Item	Description	Reference	Amount / %
(1)	Taxable capital	EB-2007-0696	\$37,709,762
(2)	Deduction from taxable capital	\$15,000,000	<u>-\$15,000,000</u>
(3)	Net taxable capital		<u>\$22,709,762</u>
(4)	2008 Ontario capital tax	(3) * 0.225%	<u>\$51,097</u>

Board staff asks the applicant to respond to Board staff's proposed decrease of \$41,889 (i.e., 28,263 + \$13,626) 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 Halton Hills' Excel models, if it agrees to the proposed adjustment.

Board staff's proposed adjustment of \$41,889 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 2009 3rd Gen. IRM Supplementary Filing Module, this tax savings will amount to \$13,063, with half to be returned to customers through a rate rider.

All of which is respectfully submitted.