



MILTON HYDRO DISTRIBUTION INC.

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By RESS and Courier

January 11, 2010

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, ON
M4P 1E4

**Re Milton Hydro Distribution Inc., Distribution Licence ED-2003-0014
Electricity Distribution Rate Application 2nd Generation Incentive
Regulation Mechanism EB-2009-0204
Response to OEB Staff Interrogatories**

Attached please find Milton Hydro Distribution Inc.'s ("Milton Hydro") response to OEB Staff Interrogatories in relation to its Electricity Distribution Rate Application for the 2nd Generation Incentive Regulation Mechanism EB-2009-0204.

Milton Hydro is filing this Application through the Board RESS and will follow up with two hard copies sent by courier.

Yours truly,

Original signed by Cameron McKenzie

Cameron McKenzie
Director, Regulatory Affairs
Milton Hydro Distribution Inc.

IN THE MATTER OF the Ontario Energy Board Act, 1998, being Schedule B to the Energy Competition Act, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Milton Hydro Distribution Inc. to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of May 1, 2010.

**MILTON HYDRO DISTRIBUTION INC. (“Milton Hydro”)
APPLICATION FOR APPROVAL OF 2010 ELECTRICITY DISTRIBUTION
RATES**

RESPONSE TO OEB STAFF INTERROGATORIES

Filed: January 11, 2009

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1. Ref: 2010 IRM Deferral Variance Account 1588 -Power

The 2008 ending balances reported in the 2010 IRM Deferral Variance Account workform prepared by Milton Hydro shows the split for account 1588 – Power and Global Adjustment. On October 15, 2009 the Board issued “Regulatory Audit and Accounting Bulletin 200901” which clarified the accounting rules for reporting the 1588 – Global Adjustment sub-account.

Account Description	Account Number	Total Claim
		I = C + D+ E + F + G + H
RSVA - Power (Excluding Global Adjustment)	1588	(645,169)
RSVA - Power (Global Adjustment Sub-account)		238,936

- a) Has Milton Hydro reviewed the Regulatory Audit & Accounting Bulletin 200901 dated October 15, 2009, and ensured that it has accounted for its account 1588 and sub-account Global Adjustment in accordance with this Bulletin?
- b) Has Milton Hydro made adjustments subsequent to filing the 2010 IRM3 application and need to re-file an updated 2010 IRM Deferral Variance Account workform?

Response:

- a) Milton Hydro confirms that the Regulatory Audit & Accounting Bulletin 200901 dated October 15, 2009 has been reviewed and that account 1588 and sub-account Global Adjustment has been accounted for in accordance with the “Regulatory Audit and Accounting Bulletin 200901”.
- b) Milton Hydro has not made adjustments to account 1588 or sub-account Global Adjustment subsequent to the filing of the 2010 IRM 2 Application.

2. Ref: 2010 IRM Deferral Variance Account 1588 – Global Adjustment

On November 13, 2009 Board Staff prepared a submission in the Enersource EB-2009-0193 2010 IRM3 Application. The following is an excerpt from the submission in respect to Board staff concerns with the current proposal for handling the disposition of the USoA 1588 – Global Adjustment.

The EDDVAR Report as well as the Board's Decision in EB-2009-0113 adopted an allocation of the GA sub-account balance based on kWh for non RPP customers by rate class. Traditionally this allocation would then be combined with all other allocated variance account balances by rate class. The combined balance by rate class would then be divided by the volumetric billing determinants (kWh or kW) from the most recent audited year end or Board approved forecast, if available. This process hence spreads the recovery or refund of allocated account balances to all customers in the affected rate class.

This method was factored on two premises; a) that the recovery/refund of a variance unique to a subset of customers within a rate class would not be unfair to the rate class as a whole and b) that the distributors' billing systems would not be able to bill a subset of customers within a rate class, without placing a significant burden to the distributor.

For these reason the Board's original Deferral Variance Account workform was modeled on this basis. However based on Enersource's evidence, there could be material unfairness to RPP customers within the affected rate classes.

Therefore Board staff suggests that a separate rate rider be established to clear the GA sub-account balance to Non-RPP customers within rate classes.

What remains unclear to Board staff is whether Enersource's billing system could accommodate that change within a reasonable timeframe."

While Enersource's response to the Board staff's submission is still pending Board staff would like to poll Milton Hydro on the above issue.

- a) Board staff is proposing that a separate disposition rate rider be applied prospectively to Non-RPP customers for 1588 – Global Adjustment. Does Milton Hydro agree that this proposal would be fair to all customers? Why or why not?

- b) If the Board were to order Milton Hydro to provide such a rate rider, would Milton Hydro's billing system be capable of billing non-RPP the separate rate rider? What complications, if any, would Milton Hydro see with this rate rider?
- c) If Milton Hydro were to be unable to bill in this fashion what would Milton Hydro consider proposing in the alternative?

Response:

- a) Milton Hydro agrees that not all customers are responsible for the balance associated with the treatment of the Global Adjustment and that a separate rate rider for the disposition of account 1588 – Global Adjustment to the Non-RPP customers may be fair to all customers based on the principle of cost causality.
- b) If the Board were to order Milton Hydro to apply a separate rate rider to be applied prospectively to Non-RPP customers for 1588-Global Adjustment, Milton Hydro's billing system will be able to accommodate a separate rate rider. This change will however require some programming and testing and involve IT, billing and finance resources. Milton Hydro would look to the OEB for direction in recovering these additional costs.
- c) While Milton Hydro would be able to bill a separate rate rider subject to programming and testing, an alternative to the disposition of account 1588 – Global Adjustment would be to calculate a single per kWh rate rider for all customer classes, using the total Non-RPP billed quantities, and combine this rate rider with the monthly Global Adjustment (Provincial Benefit) for billing purposes.

3. Ref: 2010 IRM Deferral Variance Billing Determinants

Below are the Billed kWh for Non-RPP customers identified on Sheet “B1.3 Rate Class And Bill Det” of the workform.

Rate Class	Billed kWh for Non-RPP customers
	D
Residential	24,570,995
General Service Less Than 50 kW	10,219,743
General Service 50 to 999 kW	155,675,515
General Service 1,000 to 4,999 kW	127,238,243
Large Use	84,460,488
Sentinel Lighting	54,000
Street Lighting	978,205
Unmetered Scattered Load	

- a) Please identify if these values estimated values or actual values and specify the applicable period.
- b) If the above values are estimated please explain why Milton Hydro is unable to determine actual.
- c) As discussed in the question above Board staff have proposed a non-RPP customer rate rider for disposition of the 1588 – Global adjustment. If accepted would Milton Hydro support using the numbers above as the most reasonable denominator to be used for rate determination.
- d) If Milton Hydro were to establish a separate rate rider to dispose of the balance of the 1588 – Global adjustment sub-account, does Milton Hydro believe that the rider be applied to customers in the MUSH sector? If not, would Milton Hydro have the billing capability to exclude customers in the MUSH sector if a separate rate rider were to apply for the disposition of the 1588 – Global adjustment sub-account?

Response:

- a) The Billed kWh for Non-RPP customers used on Sheet “B1.3 Rate Class And Bill Det” of the workform are the 2008 actual billing determinants.
- b) N/A

- c) Yes Milton Hydro would support using the numbers above as the most reasonable denominator to be used for rate determination.
- d) Milton Hydro does not believe that the rate rider to dispose of the balance of the 1588 – Global Adjustment Sub-Account should be applied to the MUSH sector as the MUSH sector did not contribute to the RSVA balance. However, having said this, Milton Hydro would not be able to separate the MUSH customers from other non-RPP customers without significant programming changes or manual intervention outside of the Customer Information System. If ordered by the OEB to exclude the MUSH sector from the disposition of the 1588 – Global Adjustment Sub-Account, Milton Hydro would look to the OEB for direction in recovering these additional costs.

4. Ref: 2010 IRM Deferral Variance Total Claim

Below are the Total Claim values for the EDDVAR Group One Deferral Accounts.

Account Description	Account Number	Total Claim I = C + D + E + F + G + H
LV Variance Account	1550	2,217
RSVA - Wholesale Market Service Charge	1580	(1,714,927)
RSVA - Retail Transmission Network Charge	1584	(15,320)
RSVA - Retail Transmission Connection Charge	1586	(122,350)
RSVA - Power (Excluding Global Adjustment)	1588	(645,169)
RSVA - Power (Global Adjustment Sub-account)		238,936
Recovery of Regulatory Asset Balances	1590	(219,894)
Disposition and recovery of Regulatory Balances Account	1595	0
	Total	(2,476,508)

- a) Please complete the amended Deferral Variance Account Workform V4 as found on the Board's website under the 2010 Electricity Distribution Rates update December 7, 2009. Note that Board staff can assist in converting your most recent model (either the one filed with your application or a more recent version if available). Please contact your case manager to assist you if need be.
- b) Please confirm if these are the final balances for disposition. If not the final balances please provide amended workform to support final balances for disposition.
- c) Please reconcile final balance for disposition to the 2008 year end account balance reported in the RRR filing. Please identify source and reason for variances.
- d) Please confirm that Milton Hydro has complied with and applied correctly the Boards accounting policy and procedures for calculation of the final disposition balance. If Milton Hydro has used other practices in the calculation please explain where in the filing and why?
- e) Please confirm that Milton Hydro has used the simple interest calculation as required by the Board using the Boards prescribed interest rates. If Milton Hydro has used other calculations please explain where in the filing and why?

- f) Please confirm that Milton Hydro has complied with the requirement to apply recoveries to principal first as outlined in the 2006 Regulatory Assets Transactions document issued September 4, 2009 (included in the Updated IRM Deferral and Variance Account Work Form zip file). If Milton Hydro has not complied with this requirement please explain why not?

Response:

- a) Milton Hydro has completed the amended Deferral Variance Account Workform V4 including the correcting adjustment explained in part b) below.
- b) On October 2, 2009 the OEB released the 2010 IRM Process Update # 2 which referenced a memo titled Disposition of Residual Balance in Account 1590 for 2006 Approved Regulatory Assets, which provided instructions for the purposes of completion of the IRM Deferral and Variance Account Workform. The instructions stated "The opening balances for all account (as of December 31, 2004) cleared in the 2006 Regulatory Assets process are deemed to be \$0 from January 1, 2005 onwards, except for account 1590." The instructions go on to clarify "Account 1590's opening balance is the Board approved amount as part of the 2006 Regulatory Assets process (as found on Cell C51 on sheet "2. Rate Riders Calculation" of the 2006 Regulatory Asset Recovery model) for the purpose of this workform".

Milton Hydro included the Account 1590 December 31, 2004 closing principal balance amount of (\$373,490) and closing interest balance amount of (\$6,800) in the 2005 continuity schedule. The December 31, 2004 closing balance is the actual Phase 1 Recoveries (1st interim) for the period April 1, 2004 to December 31, 2004 and should not have been included as part of the 2005 continuity schedule as per the instructions noted above. As such, Milton Hydro has removed these amounts from the Deferral Variance Account Workform Sheet "C1.1 Reg Assets – Cont Sch 2005".

Milton Hydro understands that the difference between the OEB approved amount for final disposition in the Phase 1 Recoveries and actual amounts recovered are to be for the account of the shareholder. Milton Hydro will make a book adjustment in 2009 in the amount of \$66,700 for principle and \$6,800 for the related interest component. Milton Hydro's December 31, 2008 RRR filing, in the amount of \$89,071 debit, will be adjusted by the \$66,700 and the \$6,800 to arrive at a balance of \$162,571 which will agree with the

amount calculated in the Deferral and Variance Account Workform, Sheet "C1.1 Reg Assets – Cont Sch 2008".

- c) The following table provides the reconciliation of the final balances requested for disposition and accompanying notes.

Account Description	Account Number	Total Claim Filed October 26, 2008	Adjustment to 2005 Opening Balance per 4 b) above	Adjustment to 2005 Opening Balance per 4 b) above	Less Projected Interest on Dec 31 -08 balance from Jan 1, 2009 to Dec 31, 2009	Less Projected Interest on Dec 31 -08 balance from Jan 1, 2010 to April 30, 2010	Add Revised Projected Interest on Dec 31 -08 balance from Jan 1, 2009 to Dec 31, 2009	Add Revised Projected Interest on Dec 31 -08 balance from Jan 1, 2010 to April 30, 2010	Adjusted Total Claim
			Principle Note 1	Interest Note 2	Note 3	Note 4	Note 5	Note 6	
LV Variance Account	1550	2,217							2,217
RSVA - Wholesale Market Service Charge	1580	(1,714,927)							(1,714,927)
RSVA - Retail Transmission Network Charge	1584	(15,320)							(15,320)
RSVA - Retail Transmission Connection Charge	1586	(122,350)							(122,350)
RSVA - Power (Excluding Global Adjustment)	1588	(645,169)							(645,169)
RSVA - Power (Global Adjustment Sub-account)		238,936							238,936
Recovery of Regulatory Asset Balances	1590	(219,894)	373,490	6,800	1,875	300	2,348	375	165,294
Disposition and recovery of Regulatory Balances	1595	0							0
Total		(2,476,508)							(2,091,320)

Note 1 – Removal of 2004 actual recovery amounts as explained in 4 b) above.

Note 2 – Adjusted for related interest on the 2004 actual recovery amounts.

Note 3 – Adjust for the projected interest calculated in the original filing.

Note 4 – Adjust for the projected interest calculated in the original filing.

Note 5 – Include the revised projected interest calculated in the Model.

Note 6 – Include the revised projected interest calculated in the Model.

- d) Milton Hydro confirms that it has complied with and applied correctly the Boards accounting policy and procedures for calculation of the final disposition balance.
- e) Milton Hydro confirms it has used the simple interest calculation as required by the Board using the Boards prescribed interest rates.
- f) Milton Hydro confirms that it has complied with the requirement to apply recoveries to principal first as outlined in the 2006 Regulatory Assets Transactions document issued September 4, 2009.

5. Harmonized Sales Tax

It is possible that the PST and GST may be harmonized effective July 1, 2010.
In the event that PST and GST are harmonized effective July 1, 2010:

- a. Would the Applicant agree to the establishment of a variance account to capture the reductions in OM&A and capital expenditures?
- b. Are there other alternatives that the Board might consider to reflect the reductions in OM&A and capital expenditures if this bill is enacted?

Response:

- a) It is important to understand that not all suppliers charge Provincial Sales Tax ("PST") for expenditures that a distributor may incur for Capital and OM&A. For example, capital work that is contracted out does not attract PST. While these services will attract HST effective July 1, 2010, the impact on these capital costs is zero – no PST charged before July 1, 2010 and full recovery of HST subsequent to July 1, 2010. This is also the case for certain OM&A expenditures. It would therefore be incorrect to establish a variance account to capture the PST portion of the HST and refer to it as a reduction in cost when there was no expense in the first place.

In order to track when PST was charged and not charged distributors would be required to review all suppliers to determine a listing appropriate for tracking the PST portion the HST. The manual tracking of invoices subsequent to July 1, 2010 would create significant administrative costs and manual calculations of the embedded share of PST included in the HST. Furthermore, capital is recovered as a return over 25 years and the tracking of 100% of any PST included in capital, to presumably be disposed of 100% through a rate rider is not appropriate.

Should the OEB order the creation of a variance account to track the PST portion of the HST Milton Hydro would recommend that the OEB establish clear accounting guidelines recognizing the fact that not all expenditures currently attract PST and that capital is recovered through a rate of return over time.

Distributors typically have cost increases that are not fully recovered through an IRM period even with a Price Cap Adjustment. A perfect example are the proposed programming costs that may be incurred as a result of the OEB Staff proposed CIS changes outlined in interrogatory questions 2 b) and 3 d) above. These costs are born by

the distributor. As not all distributors' cost increases are recoverable similarly distributors should not be required to immediately pass on all potential cost savings. Therefore, Milton Hydro does not agree that it is appropriate to establish a variance account for the change in the commodity tax as a result of the implementation of the HST.

- b) In the event the OEB orders a PST variance account, Milton Hydro would recommend that the account be tracked for only those OM&A suppliers that charged PST prior to July 1, 2010 and further that the account be tracked on a 50/50 sharing basis similar to the treatment of the PILs tax rate changes. Capital should be excluded. In this manner both rate payers and distributors share in unexpected changes to costs.